

Listing Requirements in Asia

11 April 2016

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Listing requirements

- ✓ Listing requirements consist of 1) quantitative requirements and 2) qualitative requirements.
Typical quantitative and qualitative requirements are as follows:

Quantitative requirements	Profitable for the last two consecutive years
	Minimum share capital
	Minimum number of shareholders
Qualitative requirements	Business continuity with profitability
	Quality management
	Good corporate governance and internal control
	Disclosure

Listing requirements: quantitative requirements by country

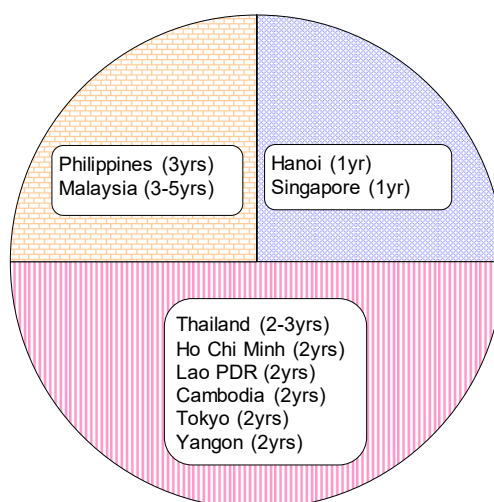
- ✓ Typical quantitative requirements are 1) profitability, 2) share capital, 3) number of shareholders, and 4) Floating rate.

	Sales	Profit	Total assets/ fixed assets	Share capital/ net assets	Market cap	No. of share- holders	Floating rate
Cambodia	No	Yes	No	Yes	No	Yes	Yes
Indonesia	No	Yes	Yes	No	No	Yes	No
Lao PDR	Yes	Yes	No	Yes	No	Yes	Yes
Malaysia	No	Yes	No	No	Yes	Yes	No
Philippines	No	Yes	No	Yes	Yes	Yes	No
Singapore	No	Yes	No	No	Yes	Yes	Yes
Thailand	No	Yes	No	Yes	Yes	Yes	Yes
Vietnam (HCMC)	No	Yes	No	Yes	No	Yes	Yes
Japan (Tokyo)	No	Yes	No	Yes	Yes	Yes	Yes

3

Listing requirements: profitability for consecutive years

- ✓ Profitability for two years or longer is a standard as a quantitative requirement.



4

Listing requirements: MSE - Classification 1

Listing requirements for MSE Classification 1

1. Company must have fully operated last three years.
2. The issuer must have produced last three full financial years' statements that comply with the "Accounting Law of Mongolia" and audited by independent auditor registered by FRC that defined in 32.2.3 of SML. As for foreign issuer, must have produced financial statements that comply with either IFRS or GAAP.
- 3. The issuer must have revenue no less than MNT10bn and MNT1bn profit in the last financial year.**
4. Issuer's holders of controlling interest, CEO and members of Board must have no tax debt or expired debt, if they are in debts information must be disclosed in the prospectus.
5. Authorized person of issuer must have adequate knowledge and experience and must not have been no changes to CEO or 2/3 of management team in the last two year and no changes have been made to holders of controlling interest in the last financial year.
6. Must be complying with principles of corporate governance that accepted in domestic and international.
7. Issuer must have contractual agreement with underwriter.

5

Listing requirements: MSE - Classification 1

Listing requirements for MSE Classification 1 (cont.)

7. At the time of trading, company's market capitalization must be more than MNT10bn.
8. No less than 25 percent of issued shares must be offered to the public.
9. No less than 2 years traded at the stock exchange.
10. Issued securities must be freely transferable and tradable and must not be in deposited.

6

Listing requirements: MSE - Classification 2

Listing requirements for MSE Classification 2

1. The issuer applying to listing at classification "II" must be meet the following requirements:
2. Must have satisfied 12.1.4 and 12.1.7 of this rule.
3. Company must have fully operated last two years.
4. The issuer must have produced last two full financial years' statements that comply with the "Accounting Law of Mongolia" and audited by independent auditor registered by FRC that defined in 32.2.3 of SML. As for foreign issuer, must have produced financial statements that comply with either IFRS or GAAP.
5. Company must have adequate working capital 12 month period of time after its listed.
6. Must be complying with principles of corporate governance that accepted in domestic and international, or explain why it has not.
7. Authorized person of issuer must have adequate knowledge and experience.

Note 1: 12.1.4 - Issuer's holders of controlling interest, CEO and members of Board must have no tax debt or expired debt, if they are in debts information must be disclosed in the prospectus.

Note 2: 12.1.7 - Issuer must have contractual agreement with underwriter.

7

Listing requirements: profitability for consecutive years

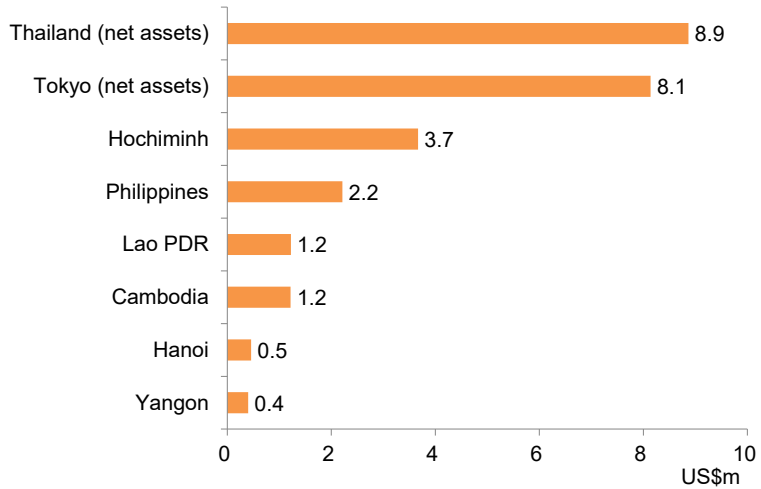
Listing requirements for MSE Classification 2 (cont.)

7. At the time of trading company's market capitalization must be more than MNT1bn.
8. No less than 15 percent of issued shares must be offered to the public
9. Must be satisfied 12.2.4 of this rule.

8

Listing requirements in Asia: minimum share capital (or net assets)

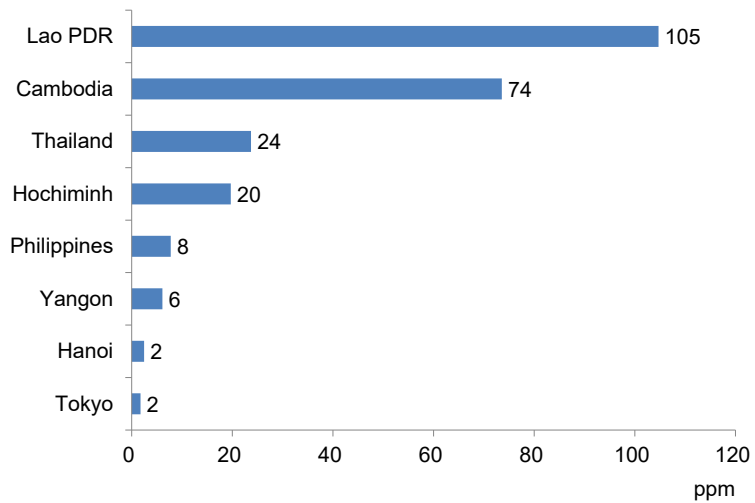
✓ Minimum share capital (or net assets) is one of quantitative requirements in many markets.



9

Listing requirements in Asia: minimum share capital (or net assets) / GDP

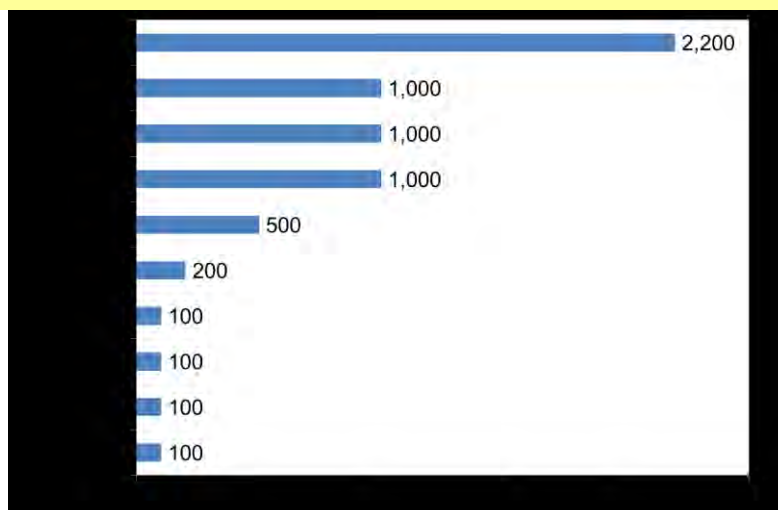
✓ Minimum share capital requirements in Lao PDR and Cambodia appear to be too stringent in terms of ratio to GDP, compared to other markets in Asia.



10

Listing requirements in Asia: number of minimum shareholders

- ✓ Minimum number of shareholders should be included in listing requirements for a liquidity reason.



11

Listing requirements: qualitative requirements

	Business continuity	Financial status etc.	Management	Disclosure	Corporate governance and others
Cambodia		No change in largest shareholder for last one year before listing			
Indonesia			No criminal record and no personal bankruptcy for past 10 years.		
Lao PDR	Going concern and profitability		No disputes that may materially affect managerial activity	Preciseness of corporate disclosure	Soundness of corporate governance and internal controls
Malaysia	Identifiable core business in which it has majority ownership and management control	Sufficient levels of working capital for at least 12 months			Transactions with related parties not unfavorable to company
Philippines	Appropriate quality and company size		Integrity and capability of top management	Adequate, precise, timely and accurate information about issuers to be widely and equitably distributed to public investors	
Singapore	Substantially same business and management throughout period for which relevant profit test applies	Not take advantage of extraordinary or seasonal profits to show better profit record by changing financial years	Appropriate qualities to manage company		
Thailand		Sufficient levels of working capital. Provident fund needs to be established.	Appropriate qualities to manage company		Soundness of corporate governance and internal controls
Tokyo	Stable revenue sources for continuing operations		Soundness of management	Preciseness of corporate disclosure	Soundness of corporate governance and internal controls

12

Listing requirements: announcement of Yangon Stock Exchange, Aug 2015

Announcement of YSX's Listing Criteria

Yangon Stock Exchange (YSX) hereby issues the following Criteria for a Public Company to list on YSX in accordance with the Article 41- (b) of Myanmar Securities and Exchange Law

1. It shall be a registered company limited by shares in accord with the Myanmar Companies Act, conducting the business in line with the public company's features and procedures.
2. It shall have at least 100 shareholders and above.
3. Paid-up capital shall be the minimum of kyat 500 million on the date of application.
4. It shall have the profit at least 2 years during the period of before the date of application.
5. The business shall have the stable basic income and conduct in accordance with the existing laws.
6. The Board of Directors and the heads of the company shall be in good character and have had not been having any punishment by a court, in addition, have not been facing any lawsuits. They shall perform their duties and responsibilities with well-prepared, in good-faith and fairly in line with the laws.

13

Listing requirements: announcement of Yangon Stock Exchange, Aug 2015 – cont.

7. The Board of Directors and the heads of the company shall not act any deceptive manners by the public for the interest of the company and self-interest.
8. Each Director of the public company shall not do any business which has the same interest carrying out by the public company, except with the approval of Shareholder meeting.
9. The company, the Board of Directors and the heads of such company shall not be included in the black list of any public and government organizations.
10. Book-keeping of accounts and auditing of the company shall be undertaken in accordance with the Myanmar Accounting Standards and Myanmar Standards on Auditing.
11. The company shall fulfill tax duties in accordance with existing tax laws of Myanmar.
12. The disclosure of relevant corporate information and the facts that the public should be known, shall be disclosed and submitted to the Securities Exchange Commission of Myanmar and Yangon Stock Exchange, besides it shall be disclosed and announced to the public by means of easy understandable and best suitable ways in timely manner. For disclosure of corporate information, it shall prescribe especially and precisely on the matters which have a considerable impact on investment decisions of the investors, such as the risk factors for the potential loss and the basic potential business activities.

14

Listing requirements: announcement of Yangon Stock Exchange, Aug 2015 – cont.

13. It shall set up an effective system to comply with laws, rules and regulations by appointing the compliance officer.
14. It shall have business plan containing business design, business process environment and the risk factors.
15. It shall set up a system to prevent the insider trading.
16. It shall continuously operate and manage stably without any influence by keeping soundness of good corporate governance, internal management and internal control system.
17. It shall have rational expectation to get a profit base upon stable revenue.

The criteria above are minimum standards to be referred as a general guideline for public companies. YSX will grant listing permission only after YSX receives listing application submitted by a public company and YSX confirms the company's eligibility of listing in term of protecting interests of general public through conducting examination.



Japan International Cooperation Agency

Stock Exchanges in Asia

11 April 2016

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JICA Consultant, Daiwa Institute of Research

Today's topics

- 1. Ownership**
- 2. IT system**
- 3. Profitability**
- 4. MSE as an SRO**

1-1. Ownership: now and past (1)

Tokyo Stock Exchange	1878	1943	1949	2001	2013
	company by five shareholders	quasi-governmental organization	Member-owned organization	Company limited by shares	Listed company
Bursa Malaysia	1937	1964	1976	2004	2005
	Malayan Stock Brokers' Association	Stock Exchange of Malaysia	Kuala Lumpur Stock Exchange, company limited by guarantee	Bursa Malaysia, company limited by shares	Listed company
Indonesia Exchange	1977	1992	2007		
	State-owned organization under MOF	Privatized, member-owned organization	Indonesia Exchange formed by merger, member-owned company		

Source: Daiwa Institute of Research

3

1-1. Ownership: now and past (2)

Stock Exchange of Thailand	1963	1975	
	Bangkok Stock Exchange, Company limited by shares	Half member-owned organization	
Ho Chi Minh Stock Exchange	2000	2007	2016
	Ho Chi Minh Securities Trading Center, state-owned company under SSC	Ho Chi Minh Stock Exchange, state-owned company under MOF	Expected to merge with Hanoi Stock Exchange, state-owned company under MOF

Source: Daiwa Institute of Research

4

1-2. Ownership: shareholding structures (2)

Government-owned stock exchanges

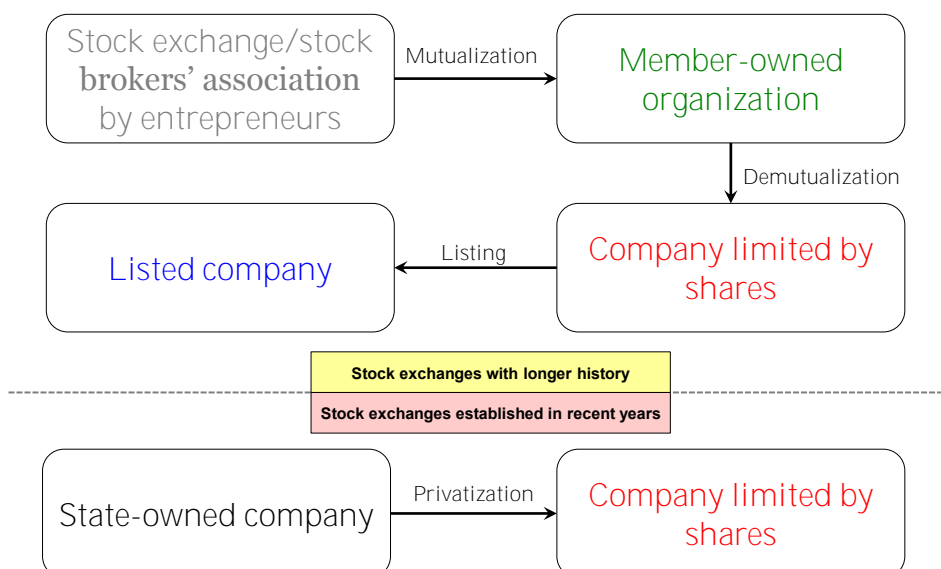
HOSE		MSE		CSX	
Ministry of Finance	100%	Ministry of Finance	100%	Ministry of Economy and Finance	55%
No of shareholders	1	No of shareholders	1	Korea Exchange	45%
				Total	100%
				No of shareholders	2

HNX		YSX		LSX	
Ministry of Finance	100%	Myanma Economic Bank	51%	Bank of Lao	51%
No of shareholders	1	Daiwa Institute of Research	49%	Korea Exchange	49%
		Japan Exchange Group		Total	100%
		No of shareholders	3	No of shareholders	2

Source: Ho Chi Minh Stock Exchange, Hanoi Stock Exchange, Mongolian Stock Exchange, Yangon Stock Exchange, Cambodia Securities Exchange, Lao Securities Exchange

7

1-3. Ownership: changes in ownership



Source: Daiwa Institute of Research

8

1-4. Ownership: should MSE be privatized ?

- ✓ MSE is in the privatization list, approved by the Parliament in 2015.
- ✓ Do you think MSE should be privatized ?
- ✓ If yes, why do you think MSE should be privatized ?
- ✓ How do you think MSE should be privatized ?

Source: Daiwa Institute of Research

9

2-1. IT system: highest expense item

- ✓ Stock exchanges have been demutualized globally, and for some cases even listed to strengthen capital base, due largely to increasing IT system investment.
- ✓ Scripless trading, which is supported by IT system, is the global standard. Order, matching, clearing, settlement and depository are all done by IT system.
- ✓ IT system is highest expense item, with initial investment of \$10m or over, in addition annual maintenance cost of equivalent to 20% of the initial investment every year.
- ✓ In the emerging economies, the private sector cannot afford IT system cost, thus newly established stock exchanges, especially after 2000, are supported by government funds.

10

2-3. IT system: accounts for 14-44% of total operating cost

IT system cost for major stock exchanges in Asia

	JPX Mar-15 JPY m	HKEx Dec-15 HKD m	SGX Jun-15 SGD m	SET Dec-15 THB m	IDX Dec-14 IDR bn
Depreciation	10,803	684	51	295	96
System maintenance cost	9,947	517	116	184	130
Total IT system cost	20,750	1,207	167	478	226
Total operating expense	53,473	3,290	377	3,335	812
IT system cost/total	39%	37%	44%	14%	28%

Source: Japan Exchange Group, HK Exchange and Clearing, Singapore Exchange, Stock Exchange of Thailand, Indonesia Exchange

11

2-4. IT system: can Mongolia afford two stock exchanges?

- ✓ Mongolian Securities Exchange (MSX) was established in 2015. According to MSX, it will be operational in the near future, with installation of IT system by NASDAQ.
- ✓ What do you think of owning two stock exchanges in Mongolia ?
- ✓ Assuming MSX will be operational with successful IPOs, what **do you think it is the best solution for the Mongolia's capital markets ?**

Source: Daiwa Institute of Research

12

3-1. Profitability: a high-margin sector (1)

Pretax income margins for major stock exchanges in Asia

JPY m

JPX	Mar-12	Mar-13	Mar-14	Mar-15
Operating revenue	75,539	82,504	114,052	106,486
Pretax income	20,080	25,259	54,786	54,887
Pretax income margin	27%	31%	48%	52%

HKD m

HKEx	Mar-12	Mar-13	Mar-14	Mar-15
Total revenue	6,432	8,131	9,127	12,233
Pretax income	4,845	5,246	6,038	9,278
Pretax income margin	75%	65%	66%	76%

Source: Japan Exchange Group, HK Exchanges and Clearing

13

3-1. Profitability: a high-margin sector(2)

Pretax income margins for major stock exchanges in Asia

SGD m

SGX	Jun-12	Jun-13	Jun-14	Jun-15
Operating revenue	648	715	687	779
Pretax income	358	404	377	410
Pretax income margin	55%	57%	55%	53%

TWD m

TWSE	Dec-12	Dec-13	Dec-14	Dec-15
Total revenue	6,577	6,728	7,676	7,892
Pretax income	2,654	2,658	3,233	3,033
Pretax income margin	40%	40%	42%	38%

Source: Singapore Exchange, Taiwan Stock Exchange

14

3-1. Profitability: a high-margin sector(3)

Pretax income margins for major stock exchanges in Asia

THB m

SET	Dec-12	Dec-13	Dec-14	Dec-15
Operating revenue	3,517	4,481	4,366	4,723
Pretax income	1,489	1,793	1,648	1,522
Pretax income margin	42%	40%	38%	32%

IDR bn

IDX	Dec-11	Dec-12	Dec-13	Dec-14
Revenue	805	788	959	1,218
Pretax income	395	279	257	469
Pretax income margin	49%	35%	27%	39%

Source: Stock Exchange of Thailand, Indonesia Exchange

15

3-2. Profitability: other sectors (1)

Pretax income margins for other sectors

USD m

Apple	Sep-12	Sep-13	Sep-14	Sep-15
Net sales	156,508	170,910	182,795	233,715
Pretax income	55,763	50,155	53,483	72,515
Pretax income margin	36%	29%	29%	31%

JPY bn

Toyota Motor	Mar-12	Mar-13	Mar-14	Mar-15
Sales	18,584	22,064	25,692	27,235
Pretax income	433	1,404	2,441	2,893
Pretax income margin	2%	6%	10%	11%

Source: Apple, Toyota Motor

16

3-2. Profitability: other sectors (2)

Pretax income margins for other sectors

JPY bn

Daiwa Securities	Mar-12	Mar-13	Mar-14	Mar-15
Net operating revenues	422	525	643	659
Pretax income	-17	92	196	182
Pretax income margin	-4%	17%	30%	28%

USD m

Starbucks Coffee	Sep-12	Sep-13	Sep-14	Sep-15
Sales	13,300	14,892	16,448	19,163
Pretax income	2,059	2,554	3,160	3,903
Pretax income margin	15%	17%	19%	20%

Source: Daiwa Securities Group, Starbucks Coffee

17

3-2. Profitability: other sectors (3)

Pretax income margins for other sectors

USD m

Rio Tinto	Dec-12	Dec-13	Dec-14	Dec-15
Sales	50,942	51,171	47,664	34,829
Pretax income	-2,431	3,505	9,552	-726
Pretax income margin	-5%	7%	20%	-2%

SGD m

Singapore Airlines	Mar-12	Mar-13	Mar-14	Mar-15
Sales	14,858	15,098	15,244	15,566
Pretax income	448	482	368	443
Pretax income margin	3%	3%	2%	3%

Source: Rio Tinto, Singapore Airlines

18

3-3. Profitability: turning MSE into a profitable company

- ✓ What do you think is the main reasons for MSE not being profitable ?
- ✓ What do you think you should do first as an SRO to revitalize MSE ?

19

4-1. MSE as an SRO (1)

- ✓ What do you think are main factors for MSE returning to profitability?
- ✓ 1) No of listed companies, and 2) liquidity are two major earnings determinants for stock exchanges.
- ✓ **MSE's priority for its business expansion is perhaps to increase no of listed companies. But any unfair companies that try to exploit, deceive and damage investors are not allowed to be listed. Self-regulation to be selective for listing candidates is MSE's important duty as an SRO.**

20

4-1. MSE as an SRO (2)

- ✓ Managing listed companies, by monitoring if they provide sufficient and timely disclosure with their shareholders, is also **MSE's duty as an SRO.**
- ✓ **Monitoring unfair trading is another type of SRO's job.**
- ✓ Self-regulations mentioned above are all very important to make investors confident in your stock exchange.
- ✓ If investors are not confident in your stock exchange, investors will never put their money into your listed companies.

Japan Exchange Group and Recent Development of Japanese Securities Markets

2016

Financial Literacy Support
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CONTENTS

- 1. Stock Exchange & Market Trends in Japan**
- 2. Establishment of Japan Exchange Group**
- 3. Recent Developments of JPX**
 - 3-1. New Index**
 - 3-2. Expansion & Strategy**
 - 3-3. Enhancing Technology**



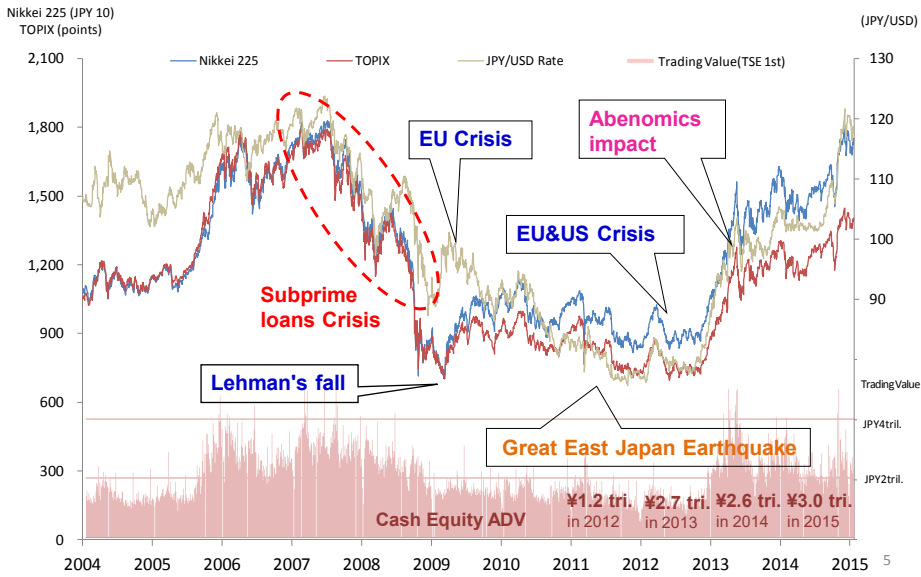
1. Stock Exchange & Market Trends in Japan



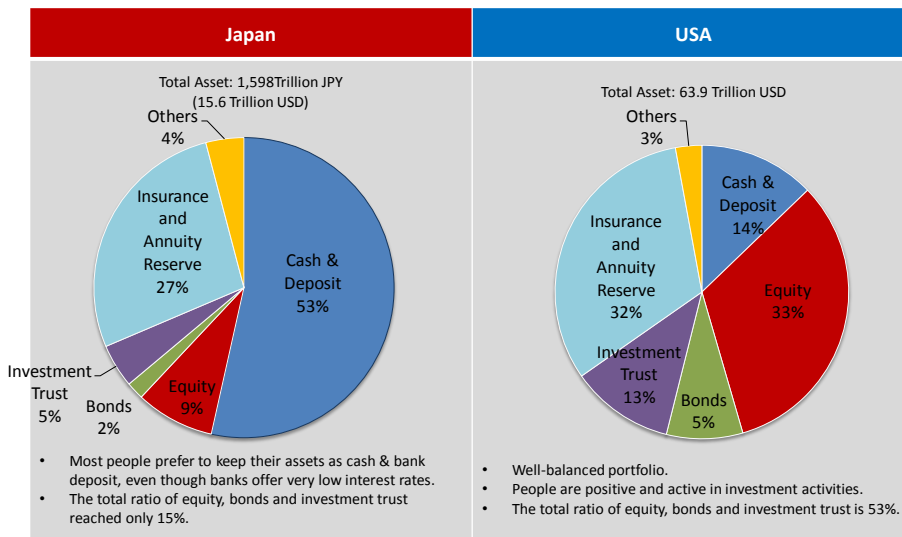
Historical Highlights

1878. 5. 15	Tokyo Stock Exchange Co. Ltd. established
1949. 4. 1	Tokyo Stock Exchange(TSE)in its present form founded
1961.10. 2	Second Section for stocks opened
1973.12.18	Foreign Stock Section opened
1985.10.19	Trading in JGB futures started
1988. 9. 3	Trading in stock index futures based on TOPIX began
1989.10.20	Trading in stock index options based on TOPIX began
1990. 5.11	Trading in options on JGB futures began
1997. 7.18	Trading in equity options started
1999.10. 1	Brokerage commissions fully liberalized and become negotiable
1999.11.11	Mothers(Market of the high-growth and emerging stocks)established
2001. 7.13	Trading in ETF(Exchange Traded Funds)started
2001. 9.10	Trading in REIT(Real Estate Investment Trusts)started
2001.11. 1	TSE, Inc. demutualized and converted to a stock company
2013. 1. 1	Japan Exchange Group, Inc.(JPX)started

Current Market in Japan

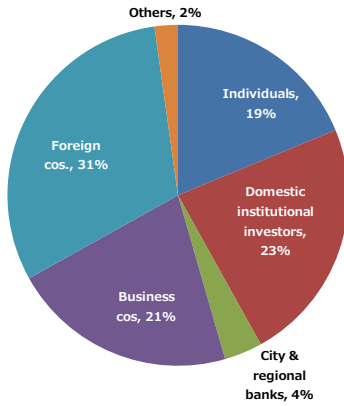


Household Financial Assets of Japan vs US (Sept. 2014)



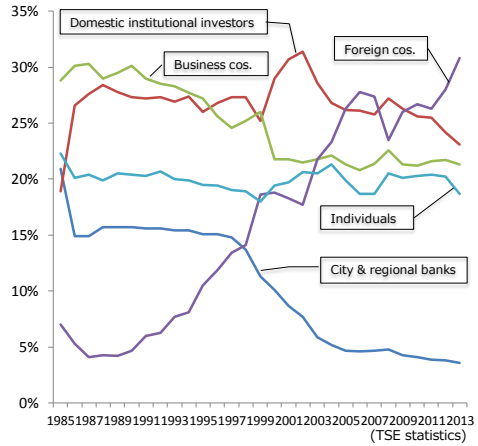
Share Ownership by Investor Category

Share Ownership by Investor Category (FY2013)



*Domestic institutional investors: Trust banks, life & non-life insurance cos., and other financial institutions
*Market Value

Trend of Share Ownership

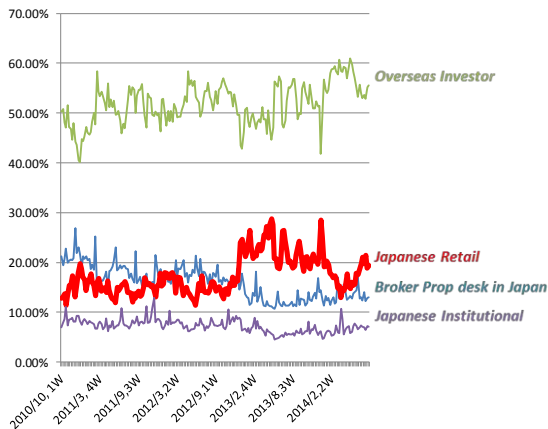


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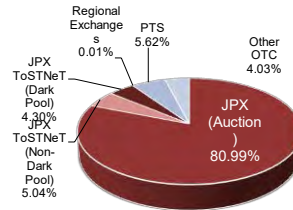
Liquidity by Investor Type, Venue Type

- ✓ Overseas investors have had the highest participation in Japanese market but the retail participation ratio has come back after 'Abenomics'.
- ✓ JPX equity market still have over 90% of market share among venues in Japan.

Trading Value by Investor Type (TSE 1st Section)
(from November 30, 2009 to August 1, 2014)



Trading Value by Venue
(as of April 2014)



Source: Exchanges, JSDA

*In this statistic, dark pool share is estimated based on ToST-1 trading value during auction trading. As such, this data may not represent actual dark pool trading value.

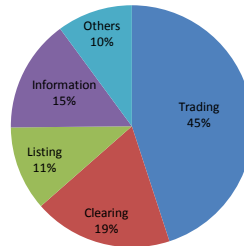
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Financial Performances of JPX

(JPY: Bil.)

FY 2014 Financial Results	
Operating Revenue	106.1
Operating Expenses	52.8
Operating Income	53.5
Net Income	34.4
ROE	15.6%

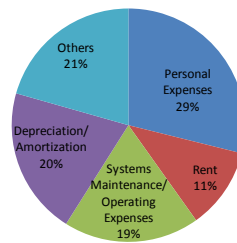
FY 2014 Revenue Breakdown



(JPY: Bil.)

Market Performance (30 Nov. 2015)	
Market Capitalization	1,059
PER	27
PBR	4.2
Dividend Yield	2.18

FY2014 Operating Expenses



9

2. Establishment of Japan Exchange Group



10

Consolidation in the Exchange Industry

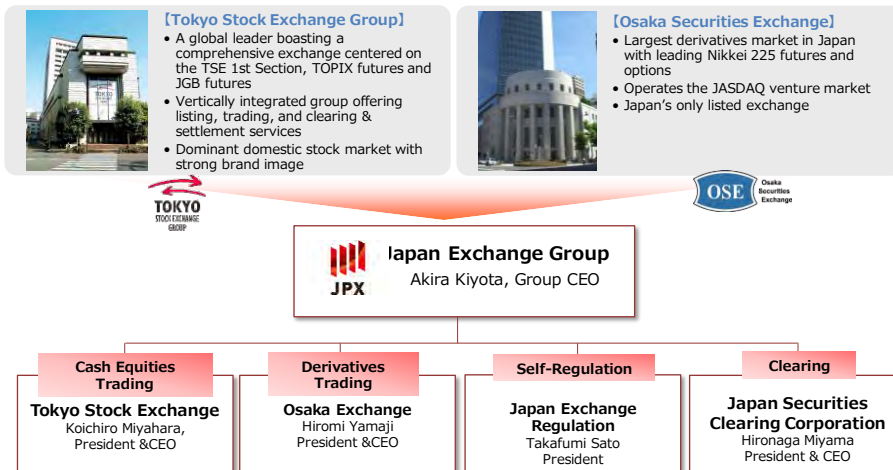
- Since 1999, the global exchange industry has seen a wave of consolidation with some success.
- Consolidation achieves larger scale and wider coverage for more efficient system infrastructure investments, which are a large part of exchange operating costs.

Year	Major Developments
1999	• The Stock Exchange of Singapore (SES) and the Singapore International Monetary Exchange (SIMEX) merge to form SGX (Singapore Exchange)
2000	• Paris Bourse (France), Amsterdam Stock Exchange (Netherlands), and Brussels Stock Exchange (Belgium) merge to form a pan-European exchange, Euronext.
2002	• Euronext merges with Bolsa de Valores de Lisboa e Porto (Portugal) and acquires Liffe (London International Financial Futures Exchange, UK)
2004	• OMX (Sweden) implement joint trading platform on all Nordic Exchanges
2005	• Korea Stock Exchange, Korea Futures Exchange, and KOSDAQ merge to form KRX (Korea Exchange) • 2 failed attempts by Deutsche Bourse (Germany) to acquire LSE (London Stock Exchange, UK)
2006	• LSE (UK) acquires Borsa Italia (Italy)
2007	• NYSE (New York Stock Exchange, US) merges with Euronext to form NYSE Euronext • CME (Chicago Mercantile Exchange, US) and CBOT (Chicago Board of Trade, US) to form the CME Group • NASDAQ (US) and OMX Exchanges, the operator of Nordic exchanges, merge to form NASDAQ OMX
2008	• In Canada, Toronto Stock Exchange (TSX) and Montreal Exchange merge to form the TMX Group • CME Group acquires NYMEX (New York Mercantile Exchange, US)
2011	• Plans to merge LSE (UK) and TMX Group (Canada) collapse due to opposition from TMX shareholders • Australian regulators reject SGX's plans to acquire ASX (Australia)
2012	• Brussels rejects merger plans between Deutsche Bourse and NYSE Euronext based on anti-trust law • HKEX (Hong Kong Exchanges and Clearing, HK SAR) acquires LME (London Metal Exchange, UK)
2013	• ICE (Intercontinental Exchange, US) acquires NYSE Euronext

11

Establishment of Japan Exchange Group (JPX)

- The January 2013 merger combined the complementary strengths of TSE and OSE in the cash equity and derivatives markets.
- JPX aims at market expansion and improved efficiency to improve user convenience and raise competitiveness

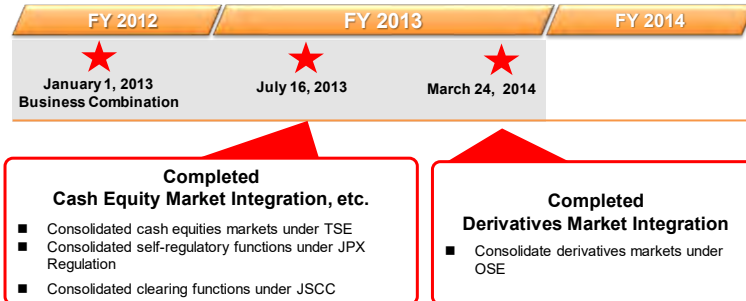


- Change in trade/corporate names : Osaka Securities Exchange → Osaka Exchange (March 24, 2014), Tokyo Stock Exchange Regulation → Japan Exchange Regulation (April 1, 2014)

12

Generating Synergy Effect

- Successfully completed cash equity market integration and derivative market integration

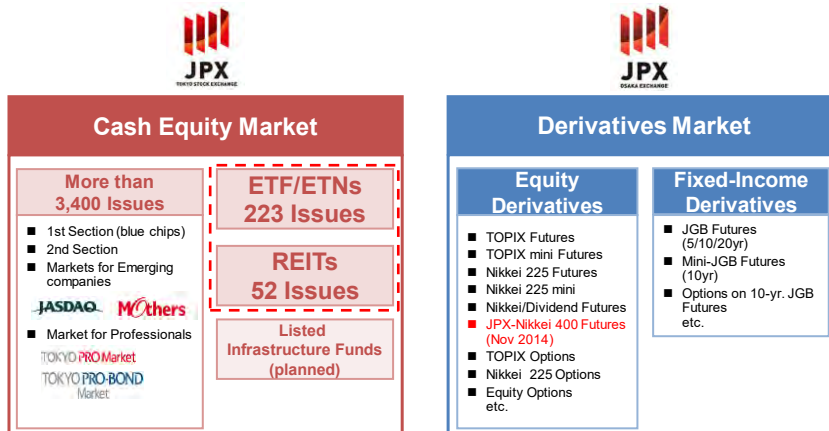


- Brought benefits to stakeholders
 - For JPX
 - ✓ Cost reduction
 - For market participants/investors
 - ✓ Cost reduction
 - ✓ Improved convenience via increased products tradable on single platform
 - For listed companies
 - ✓ Cost reduction

13

Expand Product Lineup - Asset Classes -

- ✓ JPX is expanding its products lineup to provide investors with more opportunities.
- ✓ We are working to diversify our ETF/ETN, REIT and derivatives lineups.
- ✓ We also plan to launch a listed infrastructure fund market.



(as of end of Aug 2014)

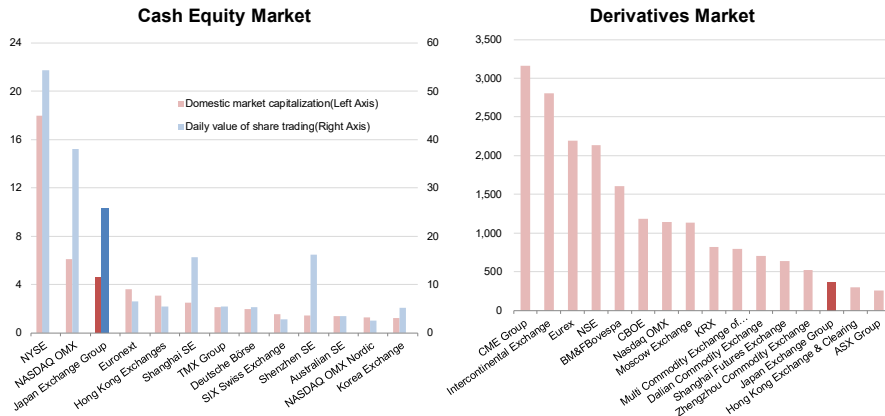
Source: JPX

JPX's Strategy

- ✓ JPX's cash equity market is ranked third behind NYSE and NASDAQ in terms of both market capitalization and trading value.
- ✓ About 3,400 companies are listed on our market.

A Global Comparison

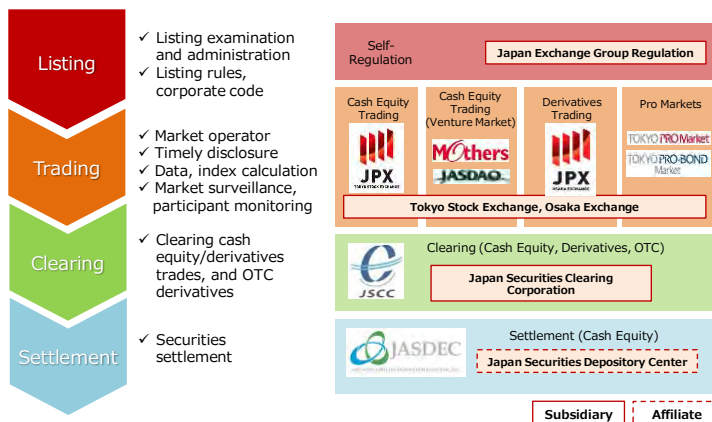
- ✓ JPX's major products are Nikkei 225 Futures/Options, TOPIX Futures and JGB Futures.



15

Horizontally Expansive and Vertically Integrated Business Model

- The group provides a comprehensive range of securities services from listing and trading to clearing and settlement, and a variety of cash equity and derivatives products.



16

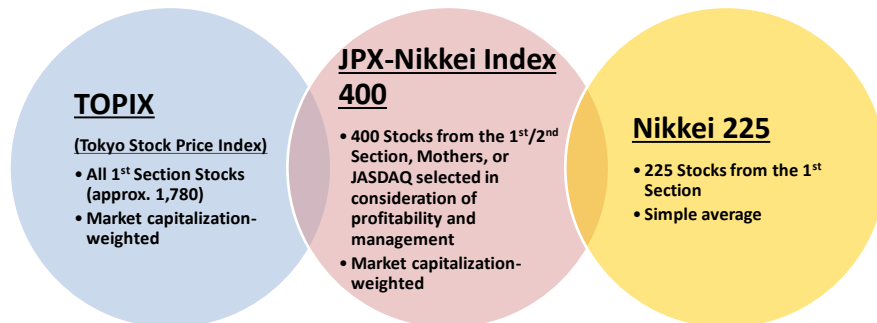
3. Recent Developments of JPX

3-1. New Index



JPX Nikkei 400

- ✓ Japan Exchange Group, Inc. and Tokyo Stock Exchange, Inc. and Nikkei Inc. jointly launched a new index, JPX-Nikkei Index 400 (JPX-Nikkei 400), on January 6, 2014.
- ✓ JPX-Nikkei Index 400 uses pioneer criteria based on profitability and management perspectives to select the 400 attractive companies which make up its constituency.
- ✓ It is expected to serve as a new investment benchmark for Japan alongside TOPIX and Nikkei 225.



18

Stock prices and ROE of Japanese companies

- In 10 years from Sep 2002, Nikkei 225 fell by 5.5% while TOPIX fell by 19%
- About half of TSE-listed stocks rose despite the broad market decline.

<Stock prices and ROEs in 10 years>
(End of Sep. 2002- end of Sep. 2012)

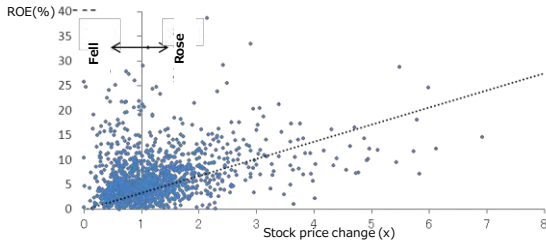
Stock prices	Companies	Ratio	Av. ROEs	
Rose	over 5x	14	0.9%	17.0%
	up to 5x	181	48.3%	11.1%
	up to 2x	593	36.3%	5.6%
No change	6	0.4%	4.7%	
Fell	839	51.4%	1.5%	
Total	1,633	100.0%	4.0%	

(Reference) ROEs in other countries

U.S. (S&P500)	26.1
U.K. (FT100)	22.4
Germany (DAX)	12.0
China (Shanghai)	14.6
World average (MSCI ACWI)	20.8

(Source: Bloomberg as of Feb. 20, 2013)

Coverage: Stocks on TSE 1st and 2nd Sections and Mothers which were listed throughout the entire period.

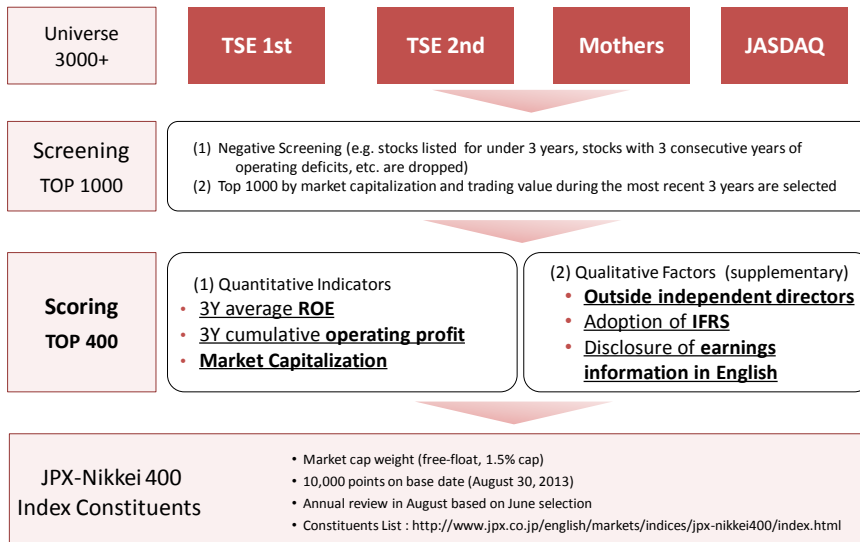


- Stock prices and ROEs show some correlation
- ROEs of Japanese companies are comparatively lower than those of foreign companies

19

New Index - JPX-Nikkei Index 400

Fundamental-based “smart beta” index consisting of companies with high investment appeal, launched on January 6, 2014.



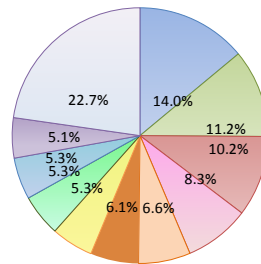
JPX-Nikkei 400 – Facts –

Market Division Balance based on the selected issues for FY2014

Market division	No. of issues
1st Section	388
2nd Section	1
Mothers	1
JASDAQ	10

Sector	No.
TOPIX Core30	29
TOPIX Large70	63
TOPIX Mid400	23
TOPIX Small	8

Top 10 Industrial Categories by Weight



- Electric Appliances & Precision Instruments
- IT & Services, Others
- Automobiles & Transportation Equipment
- Banks
- Raw Materials & Chemicals
- Machinery
- Financials (Ex Banks)
- Pharmaceutical
- Transportation & Logistics

(※)based on TOPIX-17 series categories
21

Source: Japan Exchange Group, Inc.

Impact of New Index “JPX-Nikkei Index 400”

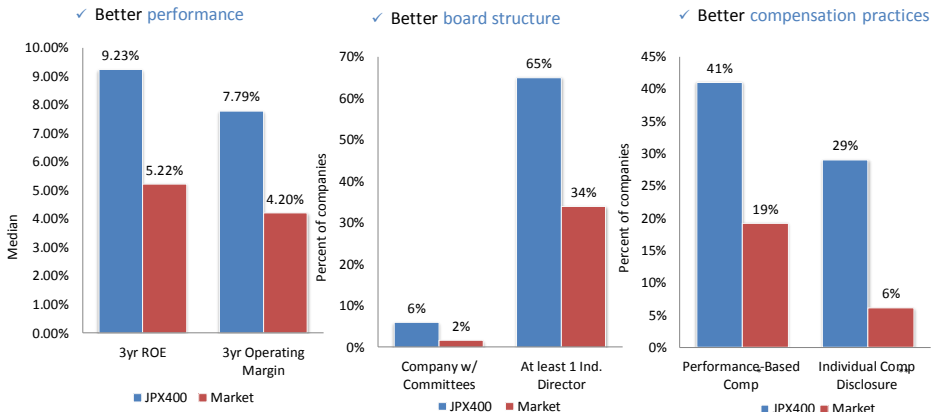
- Smooth start with numerous ETFs and mutual funds available on January 4 debut.
- Currently 4 ETFs and 19 mutual funds track the index, with combined AUM exceeding ¥200 billion (as of Aug. 7, 2014).
- Futures market scheduled for November launch on OSE.

Jan. 2014	<ul style="list-style-type: none"> ● Started calculation and publication ● Mutual funds and ETFs based on the index were set up (2 ETFs and 5 mutual funds available on month of index launch)
Apr. 2014	<ul style="list-style-type: none"> ● Adopted by GPIF as an additional equity benchmark for asset management
Jul. 2014	<ul style="list-style-type: none"> ● AUM of benchmarked investments exceed ¥200 billion
Nov. 2014	<ul style="list-style-type: none"> ● JPX-Nikkei 400 Futures was listed on Osaka Exchange

22

Better Governance in JPX-Nikkei 400 Constituents

- ✓ Through the JPX Corporate Governance Report, listed companies disclose data on **accountability, transparency and fairness**.
- ✓ These results show that JPX-Nikkei 400 constituents **score better** than the broader market across a wide range of governance-related characteristics.

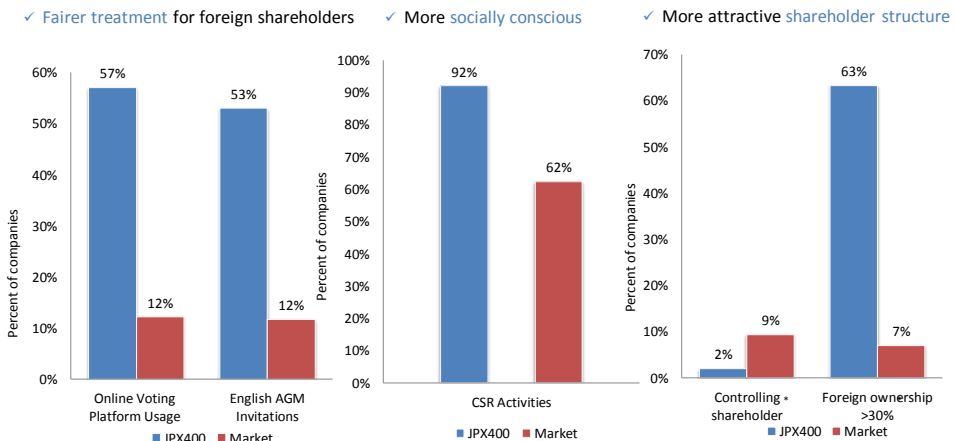


* Does not include stock options
 **Disclosure for all or a portion of the Board of Directors
 Source: JPX Corporate Governance Report Data

23

Better Governance in JPX-Nikkei 400 Constituents

- ✓ JPX-Nikkei 400 constituents tend to offer an environment more conducive to **dialogue with foreign investors**.
- ✓ They also tend to be actively engaged in activities to promote **corporate social responsibility**.



*Includes parent company, individual/family etc. ownership of >50% of voting rights
 Source: JPX Corporate Governance Report Data

24

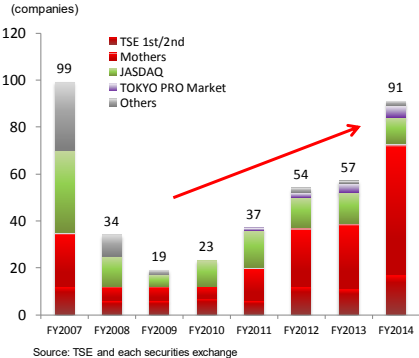
3. Recent Developments of JPX

3-2. Expansion & Strategy

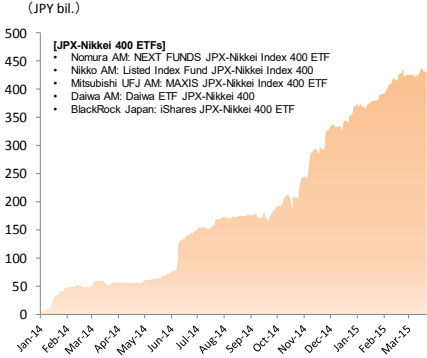


Cash Equities

➤ IPOs in Japan

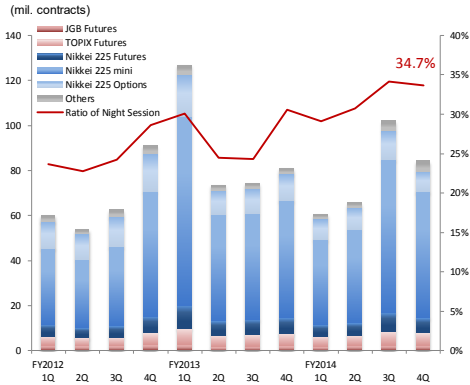


➤ AUM of JPX-Nikkei 400 ETFs

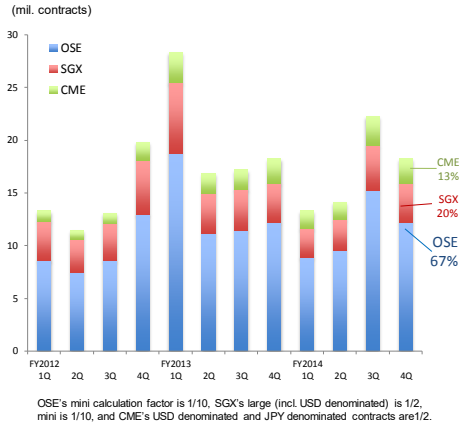


Derivatives

➤ JPX's Derivatives Trading Volume and Ratio of Night Session



➤ Trading Volume of Nikkei 225 Futures



27

27

Asian Strategy

- On 1st November 2014, the Hong Kong representative office was established, further strengthening our outreach to investors in Asia to promote the appeal of the Japanese market.
- On 4th December 2014, JPX and SGX entered into a Letter of Intent to collaborate in the joint development and promotion of the markets on both exchanges. This cooperation further deepens the exchanges' long-standing relationship and strategic partnership.
- On 23rd December 2014, a joint venture agreement on establishing Yangon Stock Exchange was concluded in preparation for its launch in 2015.
- Since 2014, JPX has provided technical support for developing derivatives CCP* rules in Vietnam, and will extend support to system development. (*Central Counter Party)

➤ Representative Offices

- New York
- London
- Singapore
- Beijing
- Hong Kong (since Nov. 2014)
Suite 01, 66/F, The Centre,
9 Queen's Road Central
Contact: 852 3965 3050

➤ Overview of the Yangon Stock Exchange

Name	Yangon Stock Exchange Joint-Venture Company Limited (abbreviation: YSX)
Location	Yangon, Myanmar
Shareholders	Myanma Economic Bank, Japan Exchange Group, Daiwa Institute of Research
Capital	32 billion Kyats (approx. JPY 3.7 billion)
Directors	Myanma Economic Bank : Three persons (including the company president) Japan Exchange Group : One person Daiwa Institute of Research : One person

28

28

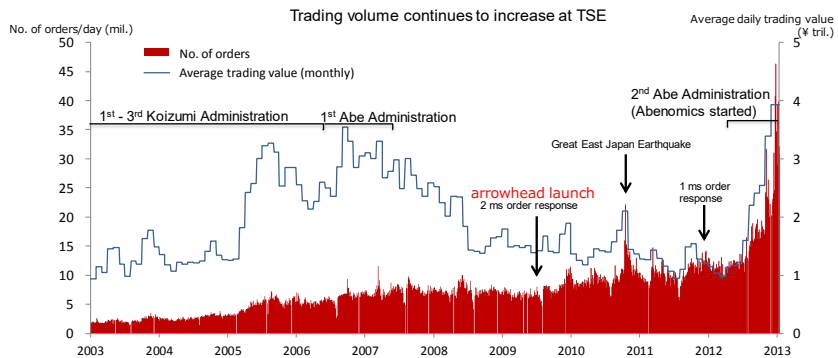
3. Recent Developments of JPX

3-3. Enhancing Technology



Rapid Growth in Order Volume Backed by Technology

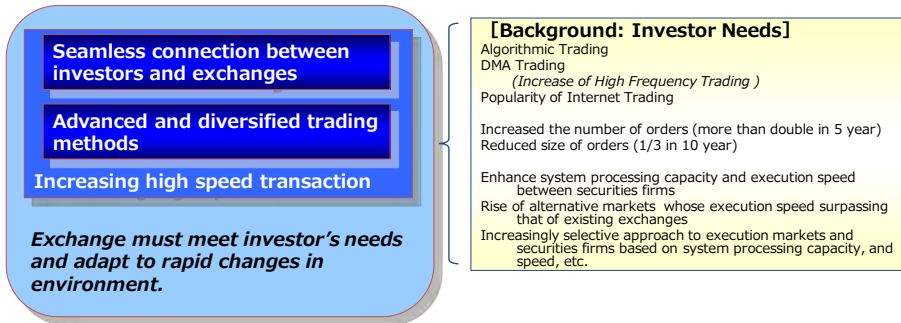
- Advancements in data processing technology drove a 20x rise in order volume in the past decade.
- Exchanges race toward providing μ s order processing in a constant effort to upgrade system infrastructure.



Increasing data processing speed and capacity	CPU	1.4GHz	~7x	9.6GHz
	HDD	80GB	~100x	8TB
	Data transfer (FTTH)	100Mbps	~100x	10Gbps

Equity Trading System “arrowhead”

Market environment surrounding exchanges



Fundamental principles for arrowhead renewal

Improve reliability	■ Respond to risks from developments in electronic trading
Improve convenience	■ Further enhance price formation function and invigorate the market
Improve processing capabilities	■ Increase processing speed, enhance processing stability, and secure appropriate capacity

31

Renewal of arrowhead and optimal tick structure

- Improve Risk Control Measures
 - ✓ Order Cancellation on Abnormal Disconnection (Cancel on Disconnect)
 - ✓ Order Suspension/Cancellation (Kill Switch)
 - ✓ User-designated Hard Limit
 - ✓ Issues for Testing (Dummy Symbol)

■ Improve Processing Capabilities

Processing Capabilities	Before renewal	After renewal
Order Response Time	About 1.0 millisecond	Less than 0.5 milliseconds
Information Dissemination Time	About 2 - 2.5 milliseconds	Less than 1.0 millisecond
Order Processing (per day)	137,000,000	270,000,000

■ Phase 3 of Tick Optimization Program

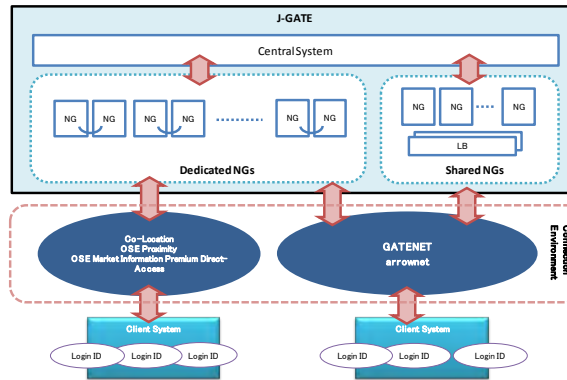
<Tick Size>

Price(JPY)		Other Issues	TOPIX100 Constituents Phase 1		TOPIX100 Constituents Phase 2		TOPIX100 Constituents Phase 3	
More than	Up to							
	1,000	1	1	0.1	0.1			
1,000	3,000	1	1	0.5	0.5			
3,000	5,000	5	1	0.5	1			
5,000	10,000	10	1	1	1			
10,000	30,000	10	5	5	5			
30,000	50,000	50	5	5	5	10		
50,000	100,000	100	10	10	10	10		

32

Derivatives Trading System “J-GATE”

- J-GATE is derivatives trading system built based on the system package (CLICK XT™) of NASDAQ OMX and has been operating since its launch in February 2011.
- J-GATE is composed of Central system, which manages sessions, processes orders/trades and publish market data, etc. and network gateway (NG) connecting to User system (participant systems and ISV systems, etc.).



OSE will begin the construction of next generation derivatives trading system aiming to launch in 2016 (currently selecting a vendor/vendors)

33



These materials are prepared solely for the purpose of providing information regarding Japan Exchange Group Inc., and as such, they are not intended as any offer or sale of securities or other similar action whether inside or outside Japan. Our securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”), and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

These materials contain forward-looking statements. These statements are based on our assumptions and beliefs in light of the information currently available to us and are subject to risks and uncertainties. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our actual results may vary materially from those we currently anticipate. Given these risks and uncertainties, you are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of these materials. We disclaim any obligation to update any of the forward-looking statements contained in these materials to reflect future actual events or developments.

<http://www.jpx.co.jp/>

International Cooperation of Japan Exchange Group

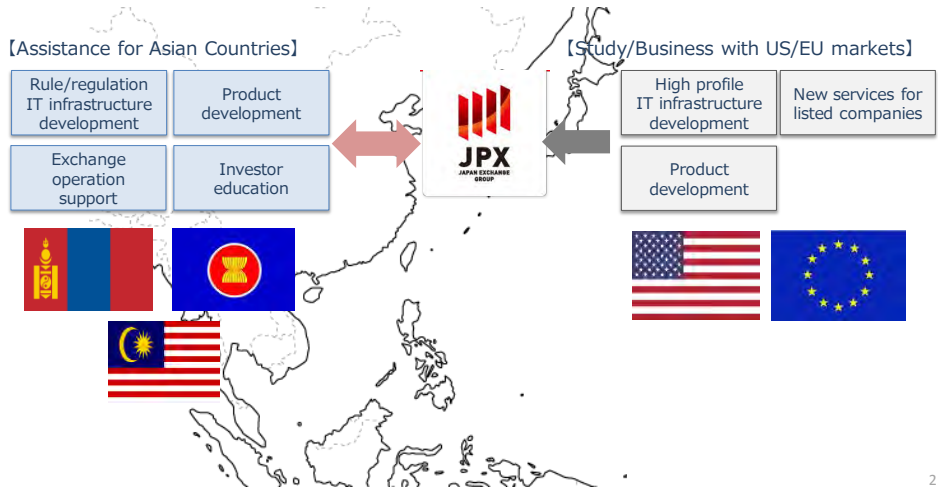
April 12th, 2016

Japan Exchange Group, Inc.

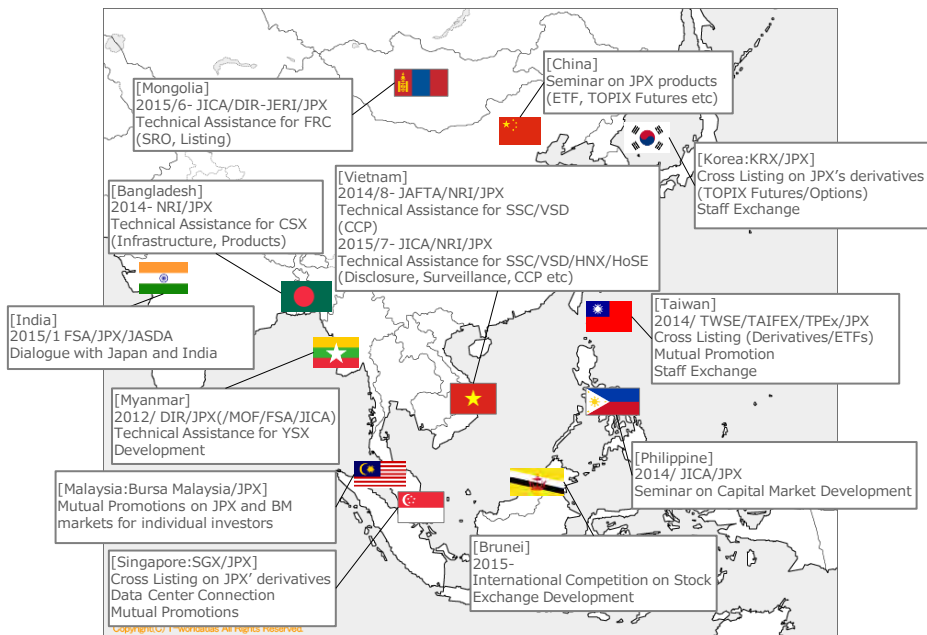


Basic Policy for International Cooperation of JPX Group

- JPX is to absorb the know-how of advanced IT technologies and new services from the US and European markets to take advantage to strengthen global competitiveness.
- In addition, JPX will support the infrastructure of the financial developing countries in Asia, aimed at long-term economic growth and market development together.



JPX's International Cooperation in Asia



Possible Cooperative Fields on Developing Markets

Establishment/Development of Derivatives Markets and CCP

- Establishment of government bond futures market for more economic growth and stable government bond market
- Establishment of derivative CCP function for more reduction on counterparty risk (G20 agreement after the Lehman shock)

Development of IT Infrastructures

- More enhancement on core exchange IT system (trading/clearing system for HFT, algorism trading, etc.)
- Development on other IT systems for gaining more market integrity (corporate disclosure system, market surveillance system, etc.)
- Overcoming difficulties on developed IT systems by foreign countries (more smooth/sustainable operation)

Acceleration on SOE's privatization

- Corporate governance on (possible) listed companies
- Strengthening on enforcement such as corporate disclosure, market surveillance, market participants' activities
- More investors for smooth and proper price formation, and stable market conditions



Disclosure & Corporate Governance

April 2016
Tokyo Stock Exchange, Inc.
Listing Department

1

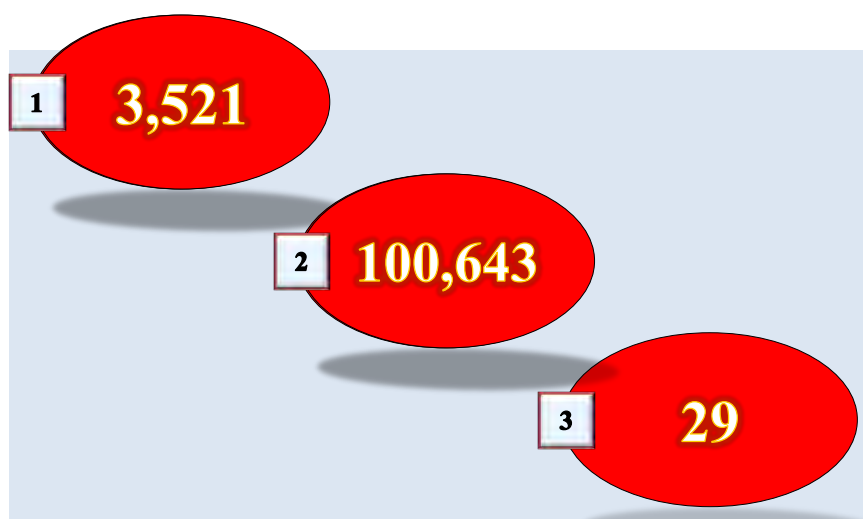


2

Disclosure

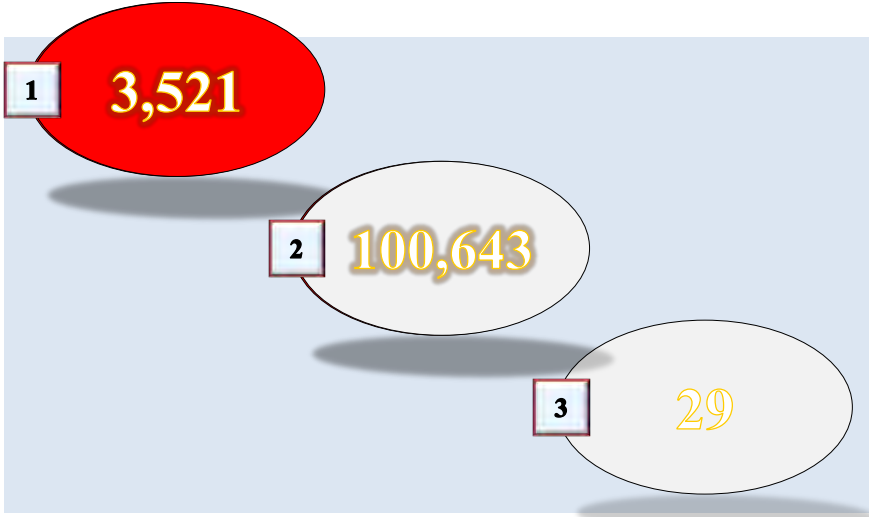
3

KEY NUMBERS



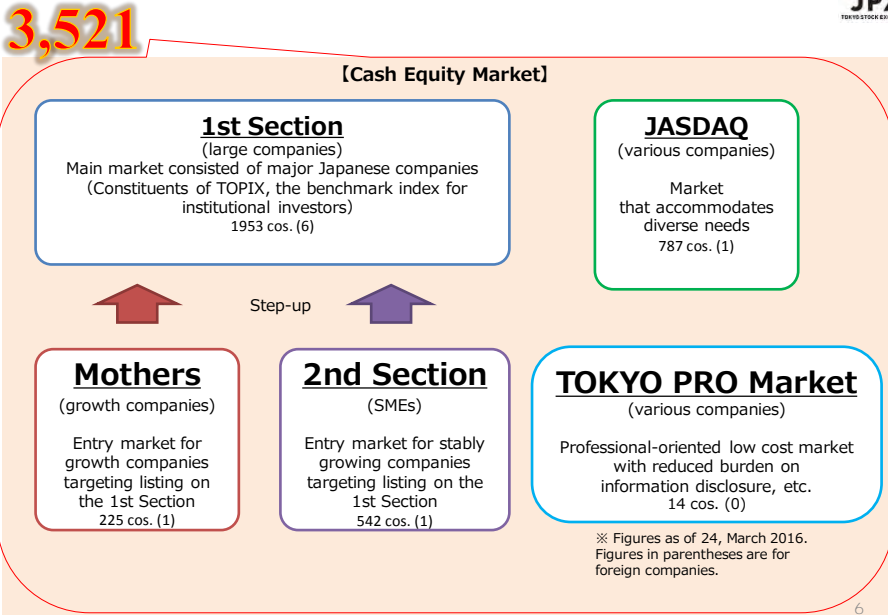
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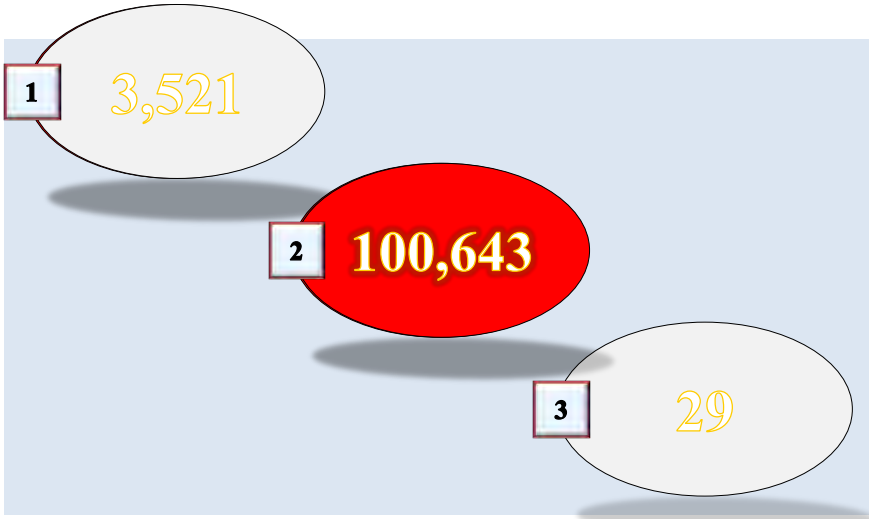
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Cash Equity Market Integration



6

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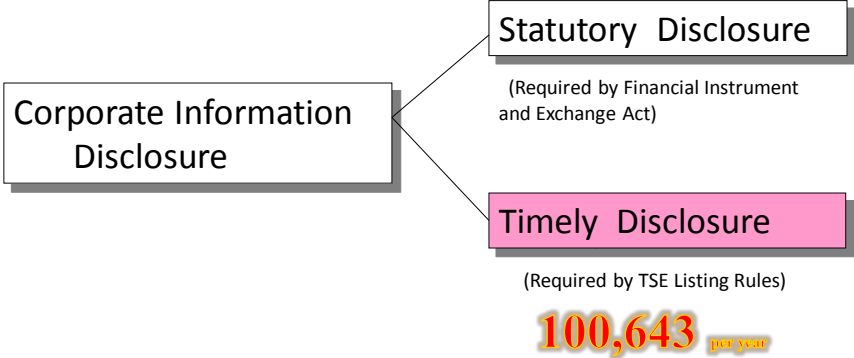


7

Two Types of Disclosure

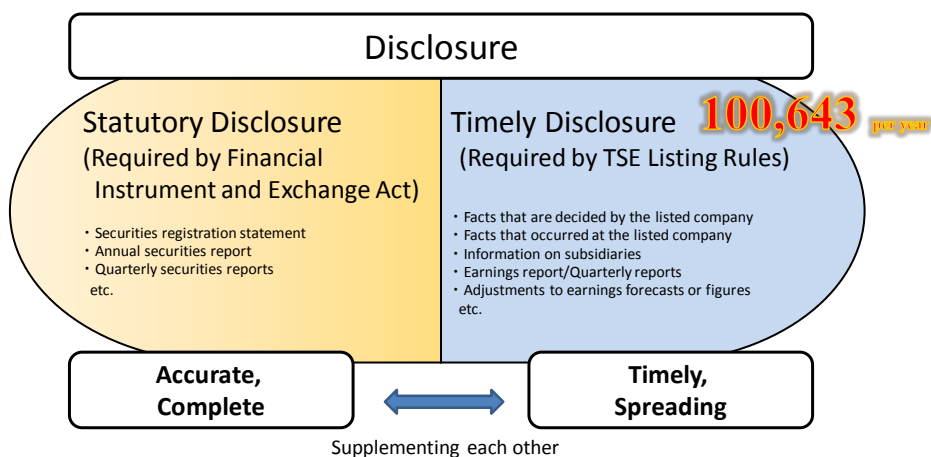


Companies listed on TSE are required to disclose its information by laws (mainly by Financial Instrument and Exchange Act) and the listing rules.



8

Different Roles of Disclosure



9

Investment and Disclosure



Investors' self-responsibility

- Investors make investment upon their own decision and responsibility
⇒ Investors take risk and return resulting from the investments
- An environment where the investors can make reasonable decisions has to be provided as a precondition of the self-responsibility.



Disclosure

Information on the securities and issuer has to be disclosed in a precise, fair, timely manner.

10

Outline of Timely Disclosure



1. Principles of timely disclosure rule
 - Information that may materially affect investment decision has to be disclosed in a timely manner.
 - The Listing Rules provide minimum standards for timely disclosure.
2. Timing of disclosure
 - Immediately after the decision or recognition of facts
3. Prior Explanation to TSE
 - Prior to disclosure, listed company are required to explain about the information to TSE.
4. The method of timely disclosure
 - Electronic filing system: **“TDnet”(Timely Disclosure NETWORK)**
5. Response to uncertain information
 - If uncertain information is spread or broadcasted, TSE may require relevant listed company to disclose accurate information.
6. Update of disclosed information
7. Designation of corporate information handling officer

11

Outline of Timely Disclosure (2)



Information required to be disclosed

1. Management Decisions
 - e.g. Merger, Equity Finance, Bankruptcy...
2. Events affecting corporate situation
 - e.g. Disaster, Default of Debt...
3. Information on subsidiaries
4. Financial Information
 - e.g. Earnings Release, Changes of forecast on dividends...
5. Others
 - e.g. Information on unlisted Controlling Shareholder, etc.

12

Outline of Timely Disclosure (3)



Timely Disclosure and Insider Trading

Regulation on Insider Trading (Financial Instruments and Exchange Act)

- An insider of a listed company must not sell/purchase relevant securities after material information arises until the information is disclosed.



Timely Disclosure (Listing Rules)

- A listed company can prevent insider trading by disclosing material information immediately.
- An exchange maintains fairness and creditability of the market by requiring the listed companies to disclose such information and preventing insider trading.
- The range of information subject to Timely Disclosure is wider than that of insider trading regulations because Timely Disclosure is designed in view of dissemination of information contributing to investors' decision making.

13

Timely Disclosure Company Announcements Database Service



JPX
東京証券取引所
大阪取引所
日本取引所グループ

English 中

TOPIX 1,649.88 (+20.41) JPX日経400 14,882.22 (+192.29) 東証第二部株価指数 4,969.75

Your Exchange of Choice

創造性豊かで、公共性・信頼性のある
質の高いサービスを提供する
アジア地域でも選ばれる取引所へ

詳細はこちら

マーケットニュース

2015/04/11 更新
新規上場の承認 - (株) アイリッサー

2015/06/11 更新
JASDAQスタンダードから市場第二部への変更 - (株) Miforeソリューションズ

銘柄検索

条件検索

株価検索

検索キーワード

検索

上場会社の遅延開示情報はこちら
(遅延開示情報閲覧サービス)

イ・ポートフォリオ

CLICK

14

Timely Disclosure



15

Timely Disclosure

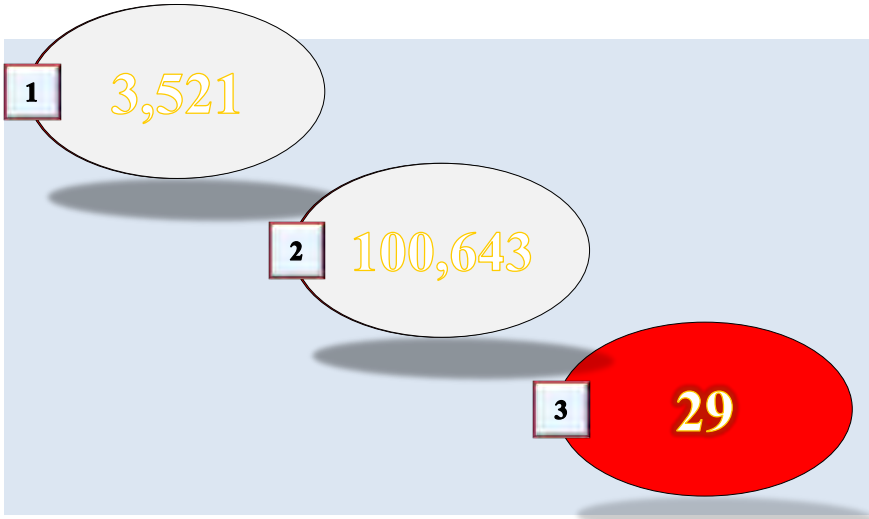


Company Announcements Database Service

時刻	コード	会社名	表題	XBRL	上場取引所	更新履歴
15:00	72670	ホンダ	平成28年3月期 第1四半期決算短信 (IFRS) (漢語)	XBRL	東	
15:00	72740	シヨーフ	平成28年3月期 第1四半期決算短信 (IFRS) (漢語)	XBRL	東	
15:00	72740	シヨーフ	第3四半期決算短信 (IFRS)	XBRL	東	
15:00	72770	T B K	平成28年3月期 第1四半期決算短信 (日本語) (漢語)	XBRL	東	
15:00	72960	F C C	平成28年3月期 第1四半期決算短信 (IFRS) (漢語)	XBRL	東	
15:00	72960	F C C	業績繰上の計上および業績繰戻手続の修正に関するお知らせ			
15:00	72960	F C C	執行役員の変更および人事異動に関するお知らせ			
15:00	74040	昭和興	平成27年3月期 第1四半期決算短信 (日本語) (漢語)	XBRL	東	
15:00	74330	組庫	平成28年3月期 第1四半期決算短信 (日本語) (漢語)	XBRL	東	
15:00	74460	J-東北化学	平成27年9月期第3四半期決算短信 (日本語) (漢語)	XBRL	東	
15:00	74520	J-マツザ	支配権移転に関する事項について			

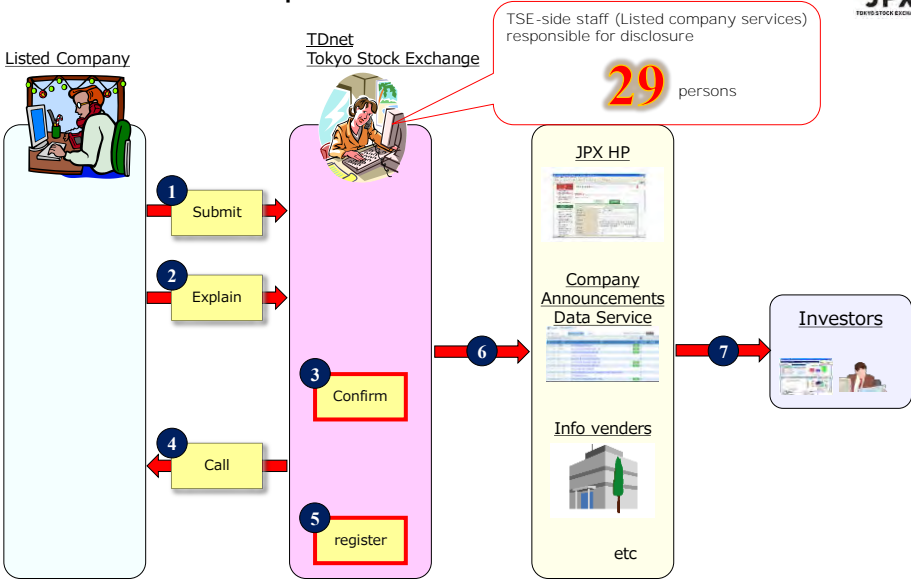
16

KEY NUMBERS



17

Approval by TSE-side staff responsible for disclosure



18

Guidebook



● Guidebook

<Purpose>

The guidebook explains practices and procedures of timely disclosure required under the Securities Listing Regulations of TSE. It's a practical manual organized by the Listing Department of TSE in order to provide easy-to-understand explanation on the outline of the related listing rules and regulations.

<Contents>

Chapter 1 Introduction
Chapter 2 Handling of timely disclosure of corporate information
Chapter 3 Outline of code of conduct and self-regulation
Chapter 4 Exceptions
Chapter 5 Documents to be submitted to TSE
※With more than 800 pages, it is voluminous even at a glance.

<Target Readers>

・Listed companies
・Service providers such as securities companies and law firms which support listed companies in timely disclosure or submission of documents

<Publication>

First publication・・・August 31, 1999
From 2008, the guidebook has been revised once a year. The current version is the 12 edition.

19



Corporate Governance

20

Laws & Regulations



What is corporate governance?

- The Cadbury Report (1992)-“Corporate governance is a system by which companies are directed and controlled”.
- Japan’s Corporate Governance Code (2015)-“corporate governance” means a structure for transparent, fair, timely and decisive decision-making by companies, with due attention to the needs and perspectives of shareholders and also customers, employees and local communities.

Basic structure of laws and regulations relating to corporate governance in Japan

<Companies Act>

- General Nature
- Incorporation
- Stocks
- Bonds
- Organization
- Accounts
- M&A
- Liquidation

<Listing Rules>

- Listing Criteria
- Timely Disclosure
- Corporate Governance Code
- Code of Corporate Conduct
- Delisting Criteria

<Financial Instruments & Exchange Act>

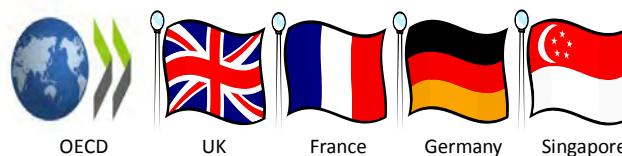
- Internal Control
- Insider Trading
- Disclosure
- Solicitation
- Business Regulations
- TOB rule

21

Japan’s Corporate Governance Code



- ✓ Development of a CG Code is the first action item in the “Japan Revitalization Strategy 2014” (the Government’s growth strategy).
- ✓ The FSA and the TSE established the Council of Experts to deliberate the outline of code.
- ✓ Developed over several months by a council of experts from finance, industry, academia and think tanks, using OECD Principles and CG codes from these countries as a reference:

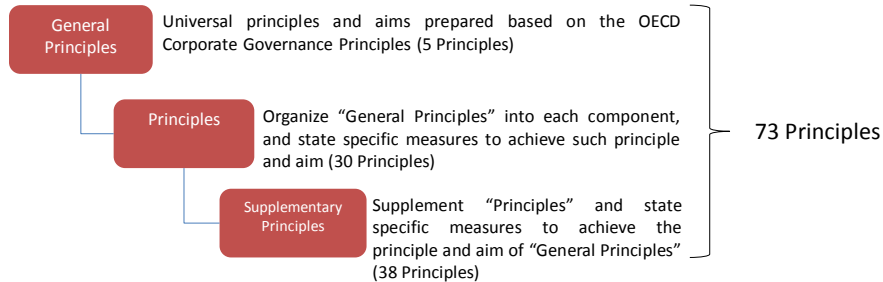


22

Key Features of the Code



□ Three-Tier Structure



□ Principles-Based Approach

- NOT a familiar rules-based approach
- Abstract norms (principles) cited
- Specific decisions on how to respond are autonomous

□ “Comply or Explain” Basis

- If any principles are not complied with, the company has to explain the reasons

23

5 Chapters of the Code



I. Respect for shareholder rights and ensuring fair treatment

- ✓ Provide necessary information for AGMs in a timely fashion
- ✓ Provide information in a format usable for foreign investors
- ✓ Address capital strategy and cross-shareholdings

II. Cooperation with stakeholders

- ✓ Address social/environmental sustainability
- ✓ Promote workplace diversity and develop a robust whistleblower system

III. Timely, relevant disclosure and ensuring transparency

- ✓ Publish company philosophy, strategy, and corporate governance approach
- ✓ Disclose strategy and process for determining compensation, appointment, and the reasons for such for management, directors and auditors

IV. Defining board responsibilities

- ✓ Develop company vision, create specific long-term strategy with management
- ✓ Monitor and evaluate management, disclosure and conflicts of interest
- ✓ Define auditor responsibility, promote higher independence and proactivity

V. Encourage dialogue with shareholders

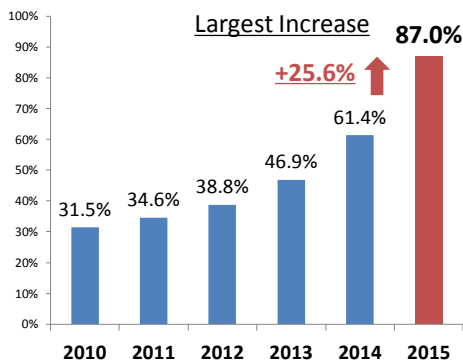
- ✓ Directors should actively seek out dialogue with shareholders
- ✓ Companies should develop and communicate long-term revenue/capital goals and explain clearly to shareholders how they plan to achieve them.

24

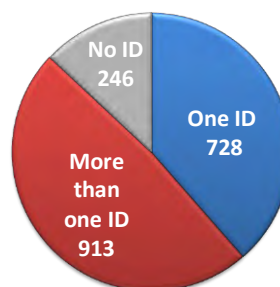
More Companies Are Appointing Independent Directors



1st Section Companies with Independent Directors



Independent Directors at 1st Section Companies



Average: 1.8 Independent Directors
(Average board size = 8.9 directors)

25

What's the Result?



- ✓ Optimistic reaction from both inside and outside Japan
- ✓ The Asian Corporate Governance Association now ranks Japan as 3rd in Asia, up from 4th two years ago.

“At long last, Japanese firms seem to be coming under proper outside scrutiny”
- The Economist

“I think this will be epoch-making in the context of Japan.”
- Nicholas Benes, Board Director Training Institute

“ We believe that solid development in corporate governance is on the horizon. This should improve the likelihood of mid- to long-term returns for investors in Japanese equities.”
- Kazuhiro Toyoda, Schroders Investment Management

ACGA Corporate Governance Ranking/Scores:

Rank	Country	2010	2012	2014	Change
1	Hong Kong	65	66	65	-1
1	Singapore	67	69	64	-5
3	Japan	57	55	60	5
4	Thailand	55	58	58	-
4	Malaysia	52	55	58	3

26

Governance Reform Continues



Establishment of “Council of Experts Concerning the Follow-up of Japan’s Stewardship Code and Japan’s Corporate Governance Code”

“Further improvements of corporate governance, e.g., making governance function not only formally, but also effectively, continue to be a major agenda, and we need to link such efforts to the establishment of a virtuous economic cycle.

In this respect, for the purpose of following up with the prevalence and adoption of JSC and JCGC as well as further improving corporate governance of all listed companies, we hereby announce the establishment of the “Council of Experts Concerning the Follow-up of Japan’s Stewardship Code and Japan’s Corporate Governance Code” (the “Council”).”



Listed Company Regulation and Supervision

- Maintaining and Enhancing the Quality of Financial Products -

April 12, 2016

**Listed Company Compliance Department
Japan Exchange Regulation**

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Table of contents

- **Overview of Listed Company Compliance Department (LCCD)**
- **Examination on Delisting**
- **Improvement Measures and Penalty Measures**
- **Examination of Information Disclosure**
- **Case Study**

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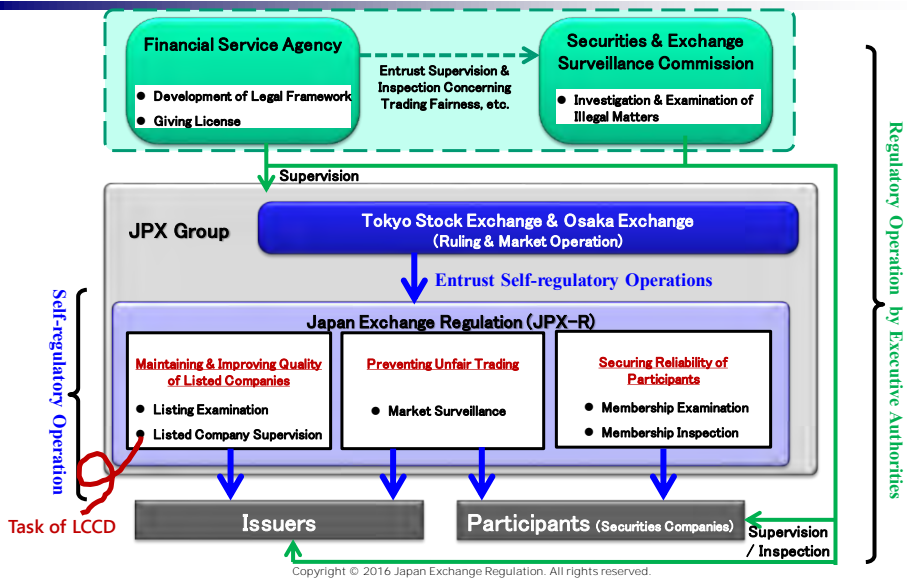


Overview of Listed Company Compliance Department (LCCD)

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Overview Of Regulation over Capital Market



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Self-regulation

Comparison between Regulation by Executive Authorities & Self-regulation

	Regulation by Executive Authorities	Self-regulation of Stock Exchange
Purpose	<ul style="list-style-type: none"> Ensure fairness and transparency in the securities market Protect investors 	<ul style="list-style-type: none"> Ensure fairness and transparency in the securities market Protect investors Ensure confidence of trading participants or listed companies
Rule	Laws and sub-rules	Rules by Stock Exchange
Sanctions	<ul style="list-style-type: none"> Accusation⇒Criminal Penalties Administrative Penalties (Suspension or Revocation of License, Management Improvement Order, Revision Order, Surcharge Payment Order, etc.) 	<ul style="list-style-type: none"> Suspension or Revocation of License as a Participants or Listed company Improvement Report, Financial Penalty,
Tools	Inspection, Surveillance, Search, Attachment, etc. (with Legal Force)	Inquiry, Hearing, Onsite Monitoring, etc. (by Contract between Stock Exchange and Participants or Listed Companies)

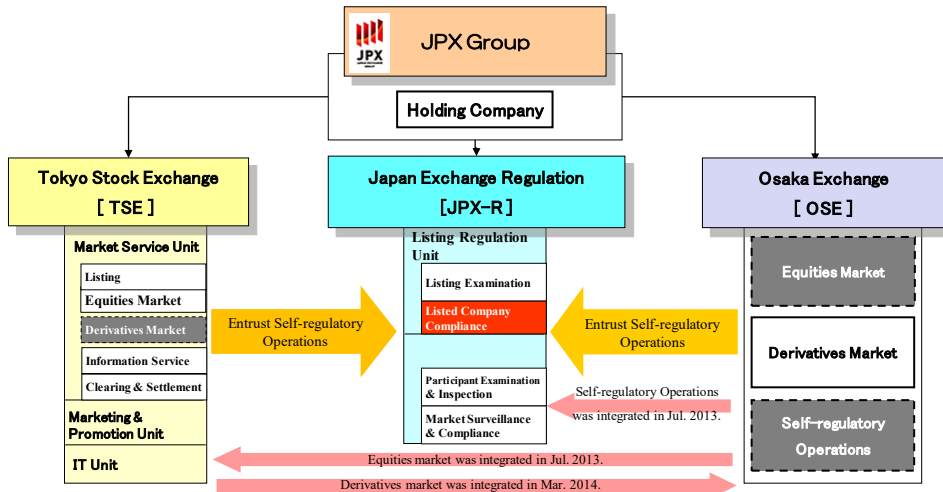
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4



Listed Company Compliance Department (LCCD)

Organization



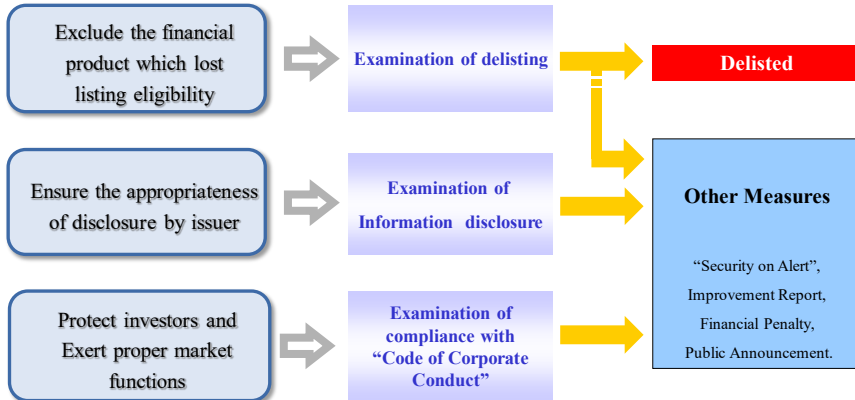
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5



LCCD Mission & Roles

Strives to maintain and enhance the quality of listed financial products in order to ensure confidence in the financial instrument exchange market.

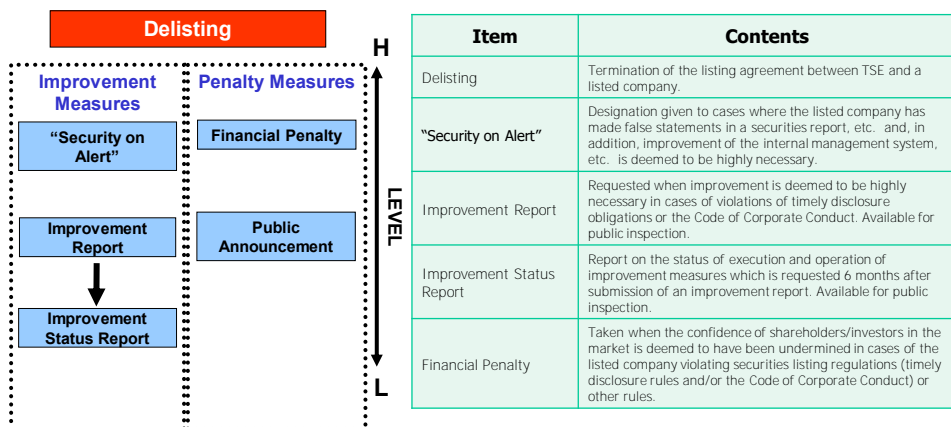


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6



Types of Measures



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7



Examination on Delisting

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Summary of Delisting Criteria

Type	Formal Requirements - Based on figures and events	Qualitative Examination - Based on LCCD's discretion
Criteria	<ul style="list-style-type: none"> ■ Numbers of shares listed ■ Distribution of shares ■ Trading volume ■ Market capitalization ■ Bankruptcy ■ Delay in filing annual/semiannual reports ■ Becoming a wholly-owned subsidiary company, etc. 	<ul style="list-style-type: none"> ■ False statements ■ Adverse opinion, etc. issued by accounting firm ■ Violation of Listing Agreement ■ Undermining public interest & investor protection ■ Inappropriate merger (backdoor listing) ■ Involvement of Anti-Social Forces, etc.
Means of Discovery	Periodical reports by listed companies, and consultation before disclosure, etc.	Disclosure, reports by listed companies, tips, and media, etc.

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Actual Examination of False Statements, etc.

Overview of Examination of False Statements, etc.

A listed company shall be delisted if it is found to have submitted a Securities Report, etc. **which contains "false statements"** and **it becomes clear that it will be difficult to maintain order in the market if the company is not delisted immediately.**

* A company is deemed to have made false statements in its Securities Report, etc., when it falls under any of the following cases:

- when it received an order to correct its Securities Report, etc. from the Prime Minister, etc.
- when it received an order for payment of surcharge from the Prime Minister, etc.
- when it was indicted by the Securities and Exchange Surveillance Commission
- when it submitted an amendment report which was found to contain material content.

* The same shall apply to the case of "adverse opinion" or "opinions not expressed."

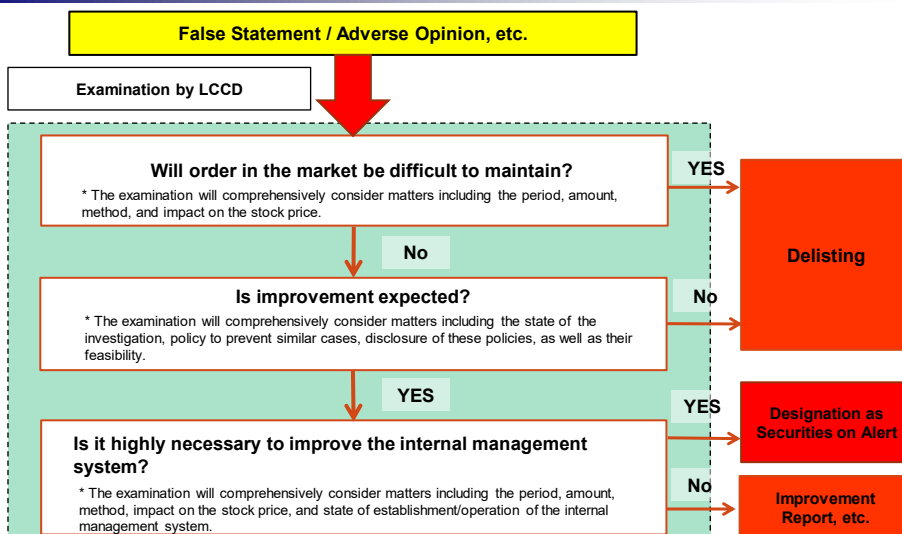
- The situation where "it becomes clear that it will be difficult to maintain order in the market if the company is not delisted immediately" means such a situation where investors' confidence in the TSE market is deemed to be significantly undermined if the listing is maintained.
- (Eg.) Cases where the listed company substantially circumvents the listing criteria by making false statements on situations, etc. at the company such as liabilities in excess of assets prior to listing, or where the listed company caused material misjudgments in investment decisions by making false statements in which the most part of its sales were fictitious.

10

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Actual Examination of False Statements, etc.



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11



Lists of Delisted Companies Due to False Statement/Adverse Opinion etc. (Since 2004)

- List of delisted companies due to false statement in the security report

Date of Delisting	Company Name	Code	Market Division
Sep. 25, 2010	Senior Communication Co., Ltd.	2463	Mothers
May 01, 2009	IBE Holdings, Inc.	2347	Mothers
Feb. 21, 2009	OHT Inc.	6726	Mothers
Apr. 14, 2006	Livedoor Co., Ltd.	4753	Mothers
Nov. 15, 2005	North Co., Ltd.	6732	Mothers
Jun. 13, 2005	Kanebo Ltd.	3102	1 st section
Dec. 17, 2004	SEIBU Railway Co., Ltd.	9002	1 st section

- List of delisted companies due to the audit firm stated “opinions are not expressed” in the audit report

Date of Delisting	Issue Name	Code	Market Division
Sep. 25, 2010	C&I Holdings Co., Ltd.	9609	2 nd section
Feb. 21, 2009	KASUGA ELECTRIC WORKS LTD.	6650	2 nd section
Sep. 20, 2008	Asia Media Co., Ltd.	2149	Mothers
Oct. 13, 2007	Framework, Inc.	3740	Mothers
Jun. 24, 2007	Internet Research Institute, Inc.	4741	Mothers

- List of delisted companies due to the audit firm stated “adverse opinion” in the audit report
N/A

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12



Features of Recent “Window Dressing” Cases

- Non-core business divisions or subsidiaries that have little relationship to the main business.
- Business divisions or subsidiaries which have unusual business models or practices.
- Business divisions or subsidiaries whose ratio of amount of inventory assets to sales is large.
- Business divisions or subsidiaries at which personnel reshuffles are not conducted in an appropriate or timely manner.
- Business divisions or subsidiaries which have a particular person who wields significant management authority.

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13



Improvement measures and Penalty measures

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“Security on Alert”

Overview of Security on Alert

A company may be designated as a Security on Alert if falls under any of the following 1 to 5 and it is deemed highly necessary to improve its internal management system.

Matter	
1	- when a listed company was deemed likely to fall under delisting criteria such as damage to sound transactions with controlling shareholder, false statements, etc. violation of listing agreement, etc., or involvement of anti-social forces or other cases in light of the public interest or the protection of investors (and thus designated as a security under supervision (examination)) but later deemed not to fall under such criteria.
2	- when a listed company is found to have made false statement in securities reports, etc. or have been expressed an ‘adverse opinion’ or ‘opinions are not expressed’ in audit report.
3	- when a listed company is found to have violated the timely disclosure rules.
4	- when a listed company is found to have violated the Code of Corporate Conduct.
5	- when a listed company fails to improve the execution of improvement measures and the operation of such measures following the submission of an Improvement Report.

⇒ A listed company designated as a Security on Alert is required to promptly submit a “Written Confirmation of Internal Management System” which reports the improvement progress of its internal management system after one year elapses following designation.



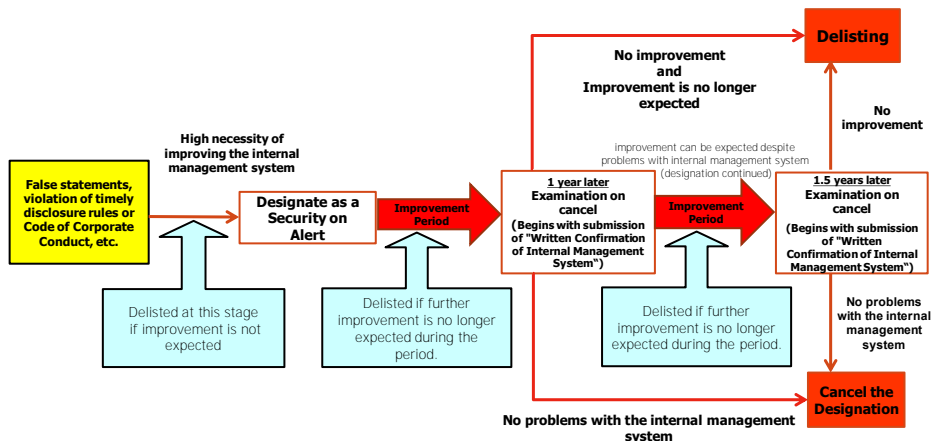
The designation shall be canceled if no problems are found with the internal management system, etc. after examination by the LCCD.

15

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“Security on Alert”

Flow of Examination of Securities on Alert



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16

List of Listed companies designated as “Security on Alert” (Since 2012)

Designation Date	Company Name	Code	Market Division	Cancel of Designation	Remarks
Mar. 16, 2016	Food Planet, Inc.	7853	2nd Section		
Sep. 15, 2015	TOSHIBA CORPORATION	6502	1st section		
Apr. 01, 2015	Aisei Pharmacy Co., Ltd.	3170	JASDAQ		
Feb. 25, 2015	SJI Inc.	2315	JASDAQ		
Jan. 29, 2015	Ishiyama Gateway Holdings Inc.	7708	JASDAQ	-	*Delisted (Aug. 1, 2015) due to public interest and for investor's protection.
Jan. 29, 2015	ENERES Co., Ltd.	6079	Mothers		
Jul. 01, 2014	JALCO Holdings Inc.	6625	JASDAQ	Sep. 26, 2015	
Mar. 11, 2014	RISO KYOIKU CO., LTD.	4714	1st section	Oct. 31, 2015	
Feb. 8, 2014	LCA Holdings Corporation	4798	2nd section		*Delisted (Dec. 1, 2015) due to no improvement of internal management system.
May 15, 2013	MATSUYA CO., LTD.	7452	JASDAQ		*Delisted (Dec. 28, 2015) due to Acquisition by a demand for share, etc. cash-out.
Jun. 20, 2012	Princi-baru Corporation	3587	JASDAQ		*Delisted (Sep. 12, 2015) due to no improvement of internal management system.
Jan. 21, 2012	OLYMPUS CORPORATION	7733	1st section	Jun. 11, 2013	
Jan. 18, 2012	KEIOZU HOLDINGS COMPANY	3731	Mothers	-	*Delisted (May. 29, 2015) due to no improvement of internal management system.

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17



Improvement Report and Improvement Status Report

~Improvement Measures~

Improvement Report

- The improvement report is a measure for cases less severe than those designated as Securities on Alert.
- In an improvement report, the listed company describes the background, reasons, and improvement measures regarding failure to conduct timely disclosure, etc.
- Such reports are available for public inspection.
- When the listed company does not respond to a request to submit an improvement report, the company commits a material violation of the listing agreement and will result in a **delisting**.
- In cases where TSE is unable to confirm an improvement in the status of execution and operation of improvement measures at the listed company that submitted an improvement report, TSE is able to designate its stock as "**Securities on Alert**".

Improvement Status Report

- After 6 months from the submission of such Improvement Reports, a listed company is required to submit an improvement status report.
- LCCD normally conduct hearings and on-site examination to make sure the improvement.
- Such reports are also available for public inspection.

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18



Financial Penalty and Public Announcement

~Penalty Measures~

Financial Penalty (Listing Agreement Violation Penalty)

- Introduced in July 2008.
- TSE may request payment of the penalty in cases where it deems that shareholder/investor confidence in the market and listed companies has been undermined in cases of a listed company deemed in violation of the securities listing regulations (timely disclosure rules and/or the Code of Corporate Conduct) or other rules.
- The penalty for a violation of the listing agreement is 20 times annual listing fee.
Ex.) TSE imposed a listing agreement violation penalty JPY 91,200,000 (≒MNT 1,500,000,000) on TOSHIBA CORPORATION(Sep.14, 2015).

Public Announcement

- TSE may make a public announcement where it deems necessary in cases of violation of timely disclosure rules and/or the Code of Corporate Conduct by a listed company.

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19



Examination of Information Disclosure

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Examination of Information disclosure

Check Points

- The timing of disclosure is appropriate
- The details of disclosed information are false
- Disclosed information lacks information deemed important for investment decisions
- Disclosed information gives rise to misunderstandings for investment decisions
- Disclosed information lacks appropriateness of disclosure

Consideration of Aspects

- Materiality of information
- The background, the cause, and the actual state of affairs
- The state of past compliance, etc.

Measures

"Security on Alert", Improvement Report, Financial Penalty, Public Announcement.

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Case Study - Food Planet, Inc. (1)-

Company Outline

Issue Name	Food Planet, Inc.
Founding	1986
Location of Head Office	Tokyo
Outline of business operations	Store operations and FC business of ice cream shop
Employees	6(consolidated) 4(individual)
Amount of Capital	1,867 million yen
Listings	2 st Section of TSE from 2015 (Mothers from 2003 to 2015)

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Case Study - Food Planet, Inc. (2)-

Resolution

- Designation as a Security on Alert
- Imposition of Financial Penalty.

Reason

Food Planet, Inc. (hereinafter "the Company") disclosed an investigation report of the third party committee concerning inappropriate accounting processing on January 20, 2016 and disclosed corrections to the earnings reports and the quarterly earnings reports for the fiscal year ended Sep. 2014 through to the fiscal year ended Sep. 2015 on Feb. 4, 2016.

These disclosures revealed that the Company corrected the consolidated sales for the fiscal year ended Sep. 2014 from JPY 113 million to JPY 81 million, which was less than JPY 100 million and therefore fell under the delisting criteria of Mothers where the Company was listed at that time.

The main correction for this case was cancelation of the sales the Company posted because it regarded some of the sales as inappropriate to be included in the business results of the Company. The Company made the correction to maintain its listing by counterfeiting vouchers of transactions that had been made between third parties, whereby the Company included the sales of the transaction that should not have been recorded through post-hoc arrangements.

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24



Case Study - RISO KYOIKU (3)-

Reason (continuation)

The Company also had presented counterfeit vouchers and made false statements to some few inquiries about appropriateness of the sales from Japan Exchange Regulation since Sep. 2014.

In addition, due to inadequacies in the Company's disclosure framework, TSE requested the Company to provide an improvement report in Aug. 2014, and the Company was planning its improvement measures. Nevertheless, the Company posted fictitious sales as indicated the above.

These acts circumvented the delisting criteria and were led by the then Representative Director and other directors. TSE deems, in these circumstances, that there were fundamental deficiencies in the check-and-balance function among directors, the function of auditors to monitor the board of directors, the internal check-and-balance procedures, etc., and the internal audit function at the Company.

Under the capital and business alliance agreement concluded by the Company in Sep. 2015, a company with which the Company concluded the agreement became a new superior to the Company in capital. Then in Nov. 2015, the then directors were all replaced, and the Company operated its business under a new management team. The third party committee conducted investigation on these corrections under the new management system, and the Company disclosed on Jan. 2016 an announcement that it would work on the improvement. However, TSE deemed that the internal management system of the Company was still inadequate, and improvements were highly necessary.

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25



Case Study - RISO KYOIKU (4)-

Reason (continuation)

Although the Company changed its management system to a certain degree, the Company conducted actions such as disclosing fictitious information to circumvent the delisting criteria. As such, TSE designated the stock of the Company as a security on alert in order to facilitate a prompt improvement to the internal management system, etc. while retaining the possibility of delisting the stock. With the designation of the stock as a security on alert, if the internal management system, etc. are examined, and TSE deems that there is no possibility of improvement, or no improvement has been made after a certain period, then the stock of the Company will be delisted.

Furthermore, this case was conducted by the then Representative Director and other directors to maintain the listing, and as a result of these corrections the Company met the delisting criteria in the fiscal year ended Sep. 2014. The Company also violated the listing rules by making false statements to inquiries from Japan Exchange Regulation. TSE deemed that these acts conducted by the Company had undermined the confidence of shareholders and investors in the TSE market. As such, TSE imposed a listing agreement violation penalty on the Company.

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26



Contact

THANK YOU

**Listed Company Compliance Department
Japan Exchange Regulation**



Website: <http://www.jpx.co.jp/english/regulation/index.html>

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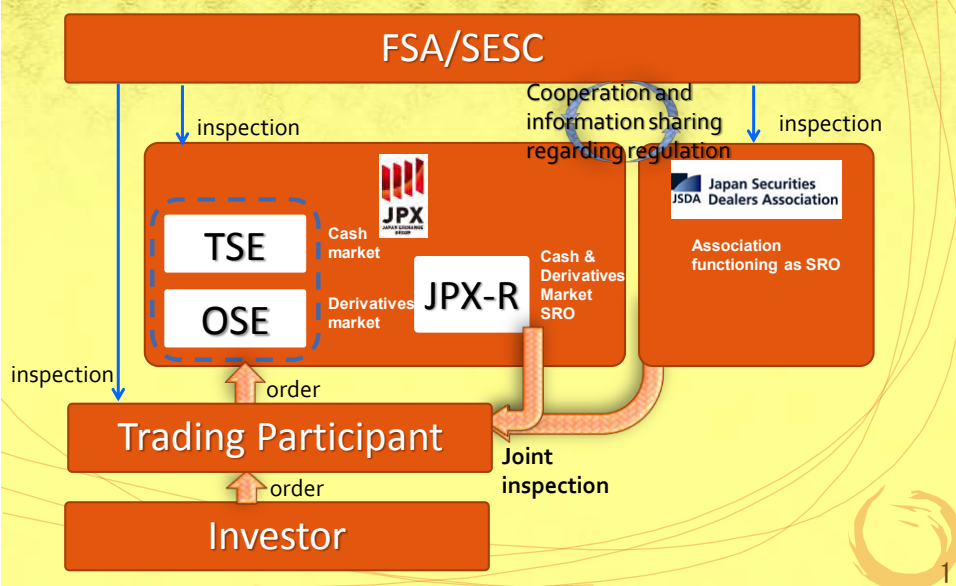
27

Inspection on Trading Participants

April 13, 2016

Participants Examination & Inspection
Japan Exchange Regulation

1. Framework of the supervision of Trading Participants



2.JPXR - Self-Regulatory Body of JPX

JPXR
 “Quality Control Center” of the Exchange

Listing Examination	Listed Company Compliance
Examine eligibility of companies or financial instruments seeking to list	Check information disclosure and corporate actions of listed companies
Market Surveillance	Participant Examination and Inspection
Monitor and investigate possible market manipulation and insider trading	Ensure the reliability of exchange trading participants

2

3. Difference of Inspection & Market Surveillance

	Participant Examination and Inspection	Market Surveillance
Purpose	Secure qualification and credibility of trading participants	Secure fairness of trading on the TSE and OSE market
Object of examination	Trading participants	Trading on (and outside, when necessary) the TSE and OSE market
Outline of examination	Inspect trading participants' compliance with laws and regulations, and their business and financial condition	Investigate existence of unfair trading, such as insider trading or market manipulation, on the TSE and OSE market

3

4. Structure of the department



4

5. Overview of Inspection

●Objective

In order to ensure market fairness and reliability, the JPXR investigates compliance with laws and TSE and OSE rules, condition of business and property of trading participants, take necessary measures based on the results.

●Type of Inspection

Regular Inspection	The JPXR take into consideration the results of last inspections and the number of days elapsed since the last inspection etc. and carries out general inspections sequentially from trading participants is deemed highly necessary to inspection.
Follow-up Inspection	Follow-up Inspection is carried out within one year after the previous inspection as needed to confirm how well the trading participant has made improvements.
Special Inspection	Inspections of trading participants are conducted with a focus on specific items based on a variety of information.

●Inspection methods

On-site Inspection	The JPXR selects several offices from among trading participants' headquarters and branch offices, and conducts on-site inspections at these offices. Majority of inspections are conducted using this method.
Document Inspection	If the JPXR decides that the documents submitted by a trading participant are sufficient, inspections are carried out based on the documents without an on-site inspection.

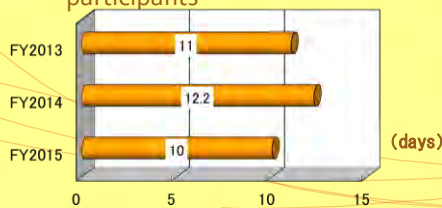
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6. Statistics on Inspection

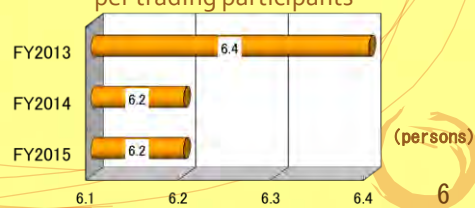
- The number of on-site inspection conducted

Type of inspection	Number of companies		
	FY2013	FY2014	FY2015
Regular Inspection	28	29	31
Follow-up Inspection	1	0	1
Special Inspection	2	1	0
Total	31	30	32

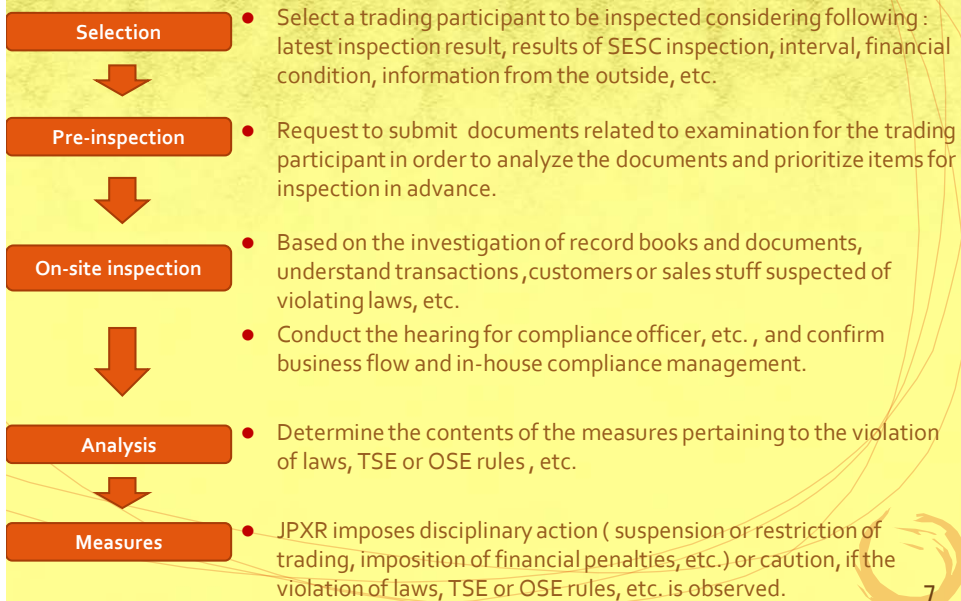
- Average number of days spent for an on-site inspection per trading participants



- Average number of inspectors engaged in an on-site inspection per trading participants



7. Inspection Steps



8. Deficiency found in recent Inspection (in FY 2015)

Deficiencies		Number of cases	Of these, cases in which warnings or requests were issued
1	Deficiency related to margin trading	8	8
2	Deficiency in the management system for preventing unfair transactions	7	2
3	Deficiency in the management system for preventing erroneous order placement	5	1
4	Deficiency related to short-selling	4	1
5	Deficiency in the management of corporate information	4	0
6	Deficiency in the management of System Risk	3	3
7	Deficiency in the management of margin of derivatives trading	3	2
8	Deficiency related to net settlement transactions	2	2
9	Deficiency related to Agreement for Setting up Trading Account	2	0
10	Deficiency in books and documents	1	1
11	Deficiency related to best execution obligation	1	0
12	Deficiency related to contract correction	1	0
13	Deficiency related to internal audit	1	0
14	Others	2	1
Total		44	21

8

9. Disciplinary Actions and Cautions

(reference : Number in FY 2015)

Violation cases			Deficiencies of internal control systems	
Disciplinary actions	Revocation of trading qualification	0	Recommendation	0
	Suspension or restriction of trading	0		
	Imposition of financial penalties	0		
	Censure	0		
Cautionary notices	Warning by the Governor in charge	0	Request	8
	Warning by the director of Participants Examination and Inspection Department	2		
	Warning by inspection staff	11		

9

10. Enforcement

If a trading participant violates laws, TSE or OSE regulation etc., JPXR can determine disciplinary actions such as Revocation of trading qualification, Suspension or restriction of trading, etc. for the trading participant.

- JPXR may initiate appropriate disciplinary process with the result of inspection or market surveillance by JPXR or other organizations when a participant.
 - violates the FIEL or the TSE or OSE rules , etc.
 - obtains the exchange's trading qualification unfairly or dishonestly
 - rejects to report or makes false report , etc.
- After through deliberation by the Discipline Committee, JPXR will decide on the content of the disciplinary action.
 - 7 ~ 11 members from representatives of trading participants and non-trading participants
 - More than half the members shall be from non-participant such as lawyers, etc.
 - Approval of more than half of attended members is necessary.
- Type of Disciplinary Actions
 - Censure (warnings)
 - Fine up to JPY 500 million
 - Limiting or suspending transaction
 - Revocation of trading qualification

10

11. Enforcement steps



11

12. Recent disciplinary actions

(reference : Disciplinary actions)

Date	Trading Participant	Violation	Disciplinary Action
7-Aug-2012	SMBC Nikko Securities Inc.	Business operation which lacks the necessary and appropriate measures to prevent unfair trading with respect to the management of corporate information, as well as inappropriate solicitation which includes acts in violation of laws and regulations	Fine of JPY 80 million
29-Aug-2012	livestar Securities Co., Ltd.	The administration of the electronic data processing system pertaining to financial instruments business, etc. was deemed to be inadequate.	Fine of JPY 3 million
18-Sep-2012	TAKAGI SECURITIES CO., LTD.	Conditions deemed lacking in necessary and appropriate measures for prevention of unfair trading in relation to management of corporate information.	Fine of JPY 5 million
31-Oct-2012	Nomura Securities Co., Ltd.	Not having measures necessary and proper for preventing unfair trading related to management of corporate information, and soliciting customers with the provision of corporate information.	Fine of JPY 200 million

12

12. Recent disciplinary actions

(reference : Disciplinary actions)

Date	Trading Participant	Violation	Disciplinary Action
21-Feb-2013	SANKO SECURITIES Co., Ltd.	Act of conducting purchases, etc. of listed securities with the aim of causing fluctuations in prices of such listed securities.	Fine of JPY 12 million
27-Feb-2014	SMBC Nikko Securities Inc.	Business operation which lacks the necessary and appropriate measures to prevent unfair trading with respect to the management of corporate information.	Fine of JPY 10 million
24-Sep-2014	Musashi Securities Co., Ltd.	Act of conducting a series of Sales and Purchase therefor that would cause fluctuations in prices of Listed Financial Instruments, etc. in a Financial Instruments Exchange Market for the purpose of inducing sales and purchase of Market Transactions of Derivatives	Fine of JPY 80 million
24-Sep-2014	Bansei Securities Co., Ltd.	Violation of just and equitable principles of transactions	Censure

13

12. Recent disciplinary actions

(reference : Disciplinary actions)

Date	Trading Participant	Violation	Disciplinary Action
25-Sep-2015	Kabu.com Securities Co.,Ltd.	The administration of the electronic data processing system pertaining to financial instruments business, etc. was deemed to be inadequate.	Censure
16-Feb-2016	Deutsche Securities Inc.	Not having measures necessary and proper for preventing unfair trading related to management of corporate information, and soliciting customers with the provision of corporate information.	Fine of JPY 60 million

14

Activities to promote compliance

COMLEC

Established for the purpose of compliance assistance to trading participants.



- **Information sharing with trading participants to comply with laws, regulations and rules**
 - The Information Analysis Group answers questions from trading participants about rules and regulations regarding securities trading.
- **Publication**
 - Compliance Case Study Handbook2014
- **Seminar**
 - Seminar for in-house examination staff
 - Compliance seminar for securities companies

15

Thank you.

Disclaimer

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A Brief Explanation of Market Surveillance at Japan Exchange Regulation

**Market Surveillance and Compliance Department
Japan Exchange Regulation
April 13, 2016**



Contents

- I. Target of Our Surveillance
- II. Structure of Market Surveillance
- III. Market Surveillance activities
- IV. Preventive Measure



I . Target of Our Surveillance



I . Target of Our Surveillance

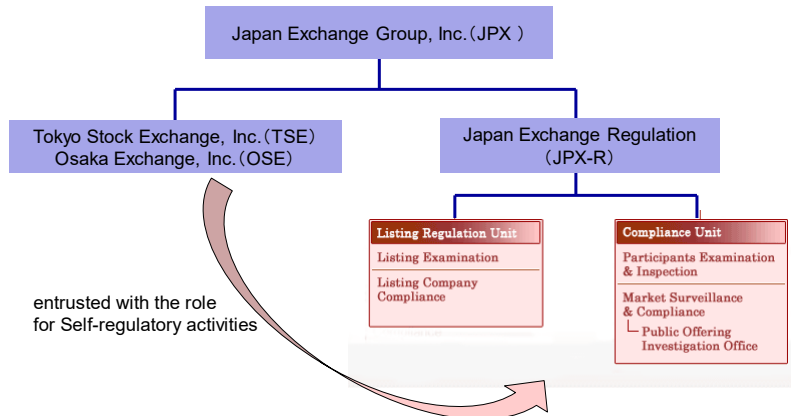
- ✓ The stock Exchanges in Japan have a duty to investigate unfair trading(in Article 84)

- ✓ Unfair trading are defined by Financial Instruments and Exchange Act(Chapter VI)
 - Insider Trading(in Article 166,167)
 - Market Manipulation(in Article 157-159)



I. Target of Our Surveillance

[Reference] Structure of JPX Group



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5



I. Target of Our Surveillance

[Reference] Types of Unfair Trading ①

Insider Trading refers to transactions where someone with a connection to a listed company uses information which they acquired through their official job or based on their position, such as a not-yet-released financial statement, etc with the potential to have a large impact on investors, to conduct an illegal sale or purchase of a stock.

When this kind of trade occurs, general investors who do not have access to this information are at an unfair disadvantage. This may result not only in unexpected losses, but may also cause investors to lose faith in the overall reliability of the market.

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6



I. Target of Our Surveillance

[Reference] Types of Unfair Trading ②

Market Manipulation is similar to insider trading, exploit important company information that has yet to be released to the public to influence the market.

For example, this includes any effort to make personal gains by deliberately altering the market to form prices in an unnatural way. This is done in a manner such that it mistakenly appears to others as if it were following the natural laws of supply and demand.

This action is referred to as market manipulation and, like insider trading, it is an unfair type of price forming action which may have an unexpected negative impact on investors.



I. Target of Our Surveillance

[Reference] Definition of “Material Facts”

Classification	Examples of Material Fact	Numerical Standard
(1) Decisions	<ul style="list-style-type: none"> - Offering of shares for subscription - Acquisition of treasury shares - Stock split - Business alliance - Merger - Commercialization of new products / new technologies 	<ul style="list-style-type: none"> Total amount of the amount paid-in under the offering is 100 million yen or more None (all are material facts) Ratio of increase is 10% or more
(2) Occurrences of events	<ul style="list-style-type: none"> - Damage arising in the course of business - Release of a debt by creditor 	<ul style="list-style-type: none"> - Damage amount is 3% or more of net assets - Forgiven amount is 10% or more of the total debt
(3) Financial results or projections	<ul style="list-style-type: none"> Significant revision of business results' projections - Sales - Ordinary profit - Current term net profits 	<ul style="list-style-type: none"> - Variation of 10% or more - Variation of 30% or more, and the amount of the variation is 5% or more of net assets - Variation of 30% or more, and the amount of the variation is 2.5% or more of net assets
(4) Basket clause	In addition to (1) to (3), material facts relating to the management, business, or property of a Listed Company, etc. which may have a significant influence on the investment decision of investors.	
(5)~(8) Material facts with respect to a subsidiary	Similar to (1)~(4)	

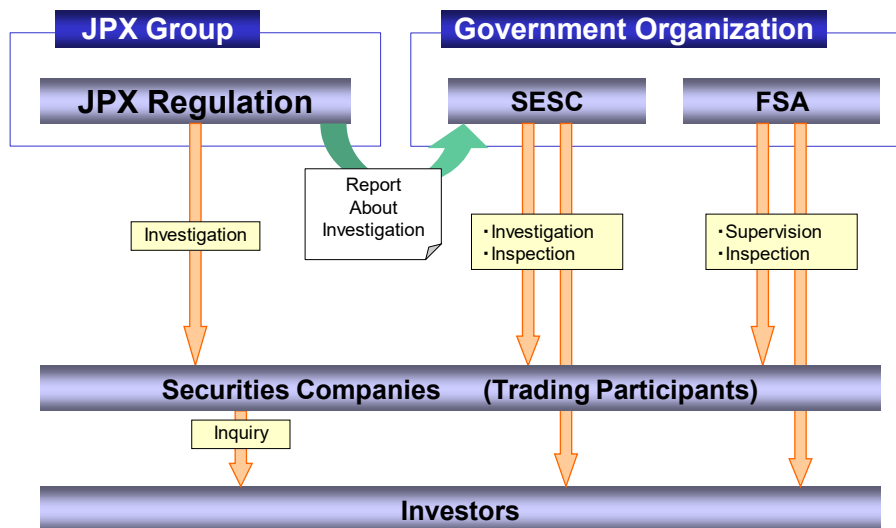


II. Structure of Market Surveillance



II. Structure of Market Surveillance

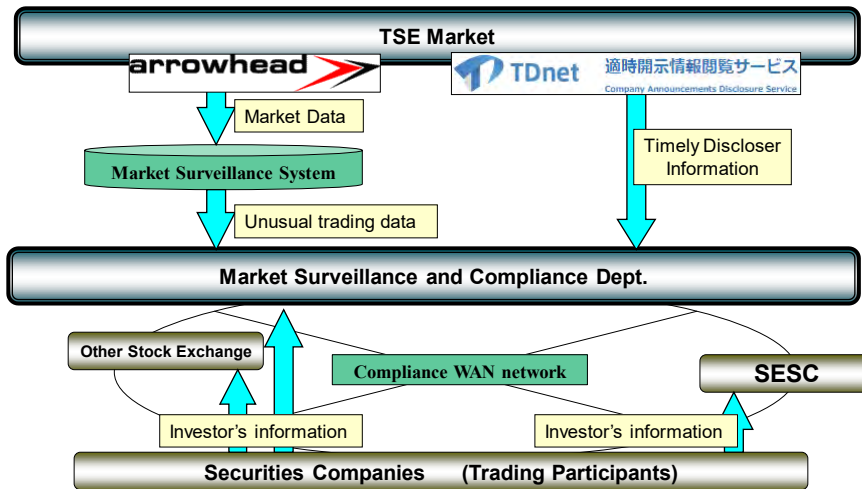
1. Organization of Market Surveillance





II. Structure of Market Surveillance

2. System and Network of Market Surveillance



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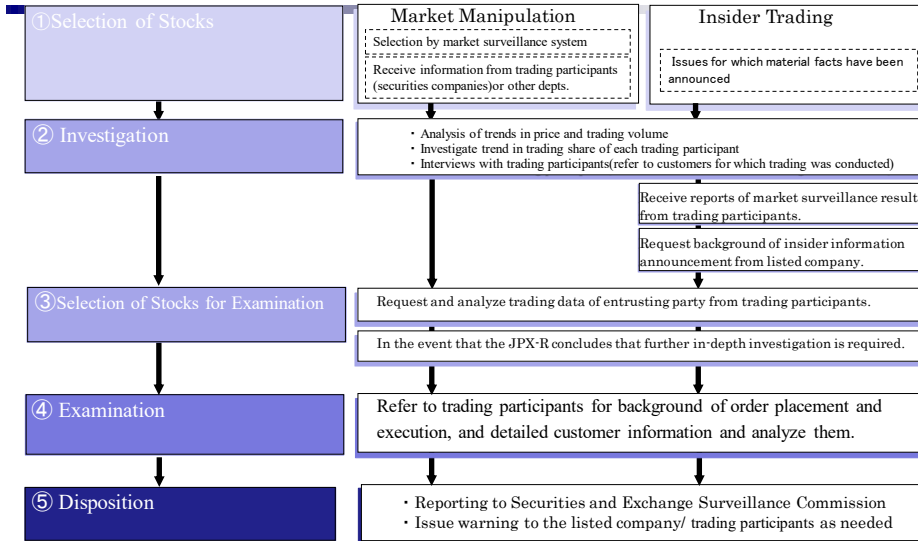


III. Process of Market Surveillance



III. Process of Market Surveillance

1. Flow of Market surveillance



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III. Process of Market Surveillance

2. Number of Examinations and Investigations

	FY 2013		FY 2014		FY 2015	
	Investigation	Examinations	Investigation	Examinations	Investigation	Examinations
Insider Trading	1,726	177	1,985	134	2,266	163
Market Manipulation	568	16	1,143	31	1,021	15
Others	1010	1	359	1	318	0
Total	3,304	194	3,487	166	3,605	178

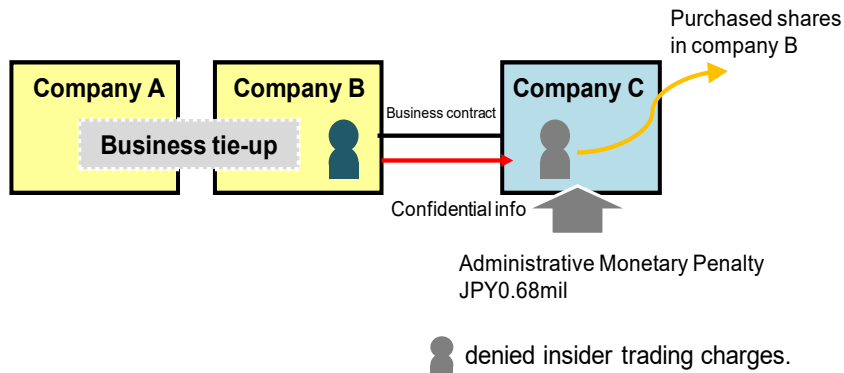
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III. Process of Market Surveillance

3.Example of Insider Trading Case

- An employee at Company C learned of material non-public information on business tie-up between Company A and B.
- The employee purchased shares in Company B prior to public announcement of the business tie-up.



III. Process of Market Surveillance

4.Example of Market Manipulation Case

- Contract:
 - TOPIX Futures (Expiry : 2013.09)
- Date:
 - 2013.07.29 – 2013.07.31 (3 days)
 - 2013.09.09 – 2013.09.11 (3 days)
- Details:
 - A prop desk trader entered a small buy order to Best Bid (or Ask) price and entered a large sell order to Best Ask (or Bid) price.
 - Acquired JPY5.435 mil (approx US\$50K) in profit.
 - Traded volume (buy and sell) : 4,032 units
 - Order volume (buy and sell) : 88,443 units



III. Process of Market Surveillance

4. Example of Market Manipulation Case

1. Entered small buy orders A

Trader	Vol (S)	Price	Vol (B)	Trader
	154	1234.0		
	96	1233.5		
	76	1233.0		
	14	1232.5		
		1232.0	51	10
		1231.5	68	
		1231.0	89	
		1230.5	126	

2. Entered large self order B

Trader	Vol (S)	Price	Vol (B)	Trader
	151	1234.0		
	96	1233.5		
	78	1233.0		
100	157	1232.5		
		1232.0	49	10
		1231.5	67	
		1231.0	90	
		1230.5	126	

3. Small buy order A filled

Trader	Vol (S)	Price	Vol (B)	Trader
	151	1234.0		
	96	1233.5		
	78	1233.0		
100	159	1232.5		
		1232.0	1	
		1231.5	66	
		1231.0	90	
		1230.5	126	

4. Deleted large order B

Trader	Vol (S)	Price	Vol (B)	Trader
	151	1234.0		
	94	1233.5		
	85	1233.0		
100	81	1232.5		
	29	1232.0		
		1231.5	40	
		1231.0	78	
		1230.5	129	

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IV. Preventive Measure

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IV. Preventive Measure

1. Explanation

- **Explanation (After Investigation or Examination)**
 - ✓ If the possibility of illegal trading in the future arises, staff members of the Market Surveillance and Compliance Department explain the situation to persons in charge of market surveillance at trading participants.



IV. Preventive Measure

2. Investor Education(1)



(Compliance Learning Center)

- **Contents**
 - ✓ Seminar
 - ✓ E-Learning Service
 - ✓ Publication



IV. Preventive Measure

3. Investor Education(2)

- Seminar – How to prevent Insider Trading
 - ✓ COMLEC held seminar to prevent Insider trading for listed companies.



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IV. Preventive Measure

3. Investor Education(3)

- E-learning – about Insider Trading
 - ✓ COMLEC provide e-learning service for staffs of listed companies, staffs of securities companies, and investor.



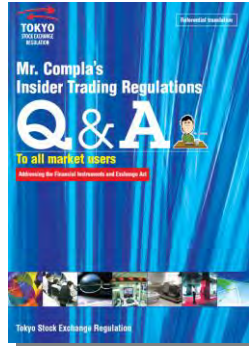
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IV. Preventive Measure

3. Investor Education(4)

- Publication
 - ✓ “Insider Trading Regulations Q&A”
 - Explains insider trading regulation for staffs of listed companies in plain terms.
 - Total circulation had exceeded a million (2010)



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Thank you for your kind attention!!

Listed Companies' Disclosure for Investors

13 April 2016

Ryota Sugishita
JICA Consultant

Disclosure is listed companies' accountability

Why is disclosure important ?

- ✓ Disclosure is costly, but it is the most important accountability for listed companies
- ✓ Without disclosure, investors cannot know listed **companies' current status**
- ✓ How could you put your money into a company that you do not know ?

How can listed companies disclose?

- i. Earnings release
- ii. Press release
- iii. Investor meeting or telephone conference
- iv. One-on-one meeting

Earnings release

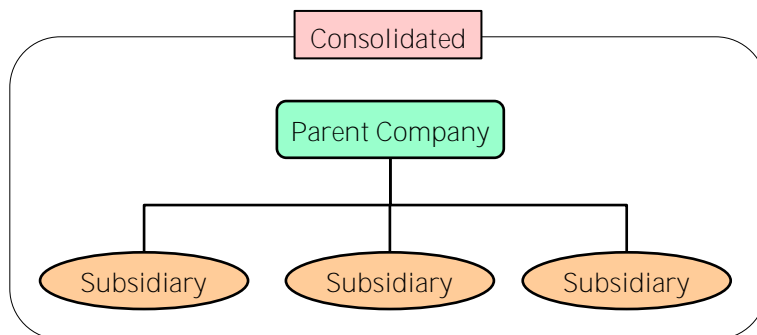
Earnings release frequency	<ul style="list-style-type: none"> ✓ Semi-annually or quarterly ✓ Quarterly earnings release is common in recent years ✓ In Taiwan, monthly sales release is requested
How soon do listed companies have to report results?	<ul style="list-style-type: none"> ✓ Within one/two/three/four months after the results
How do listed companies release earnings ?	<ul style="list-style-type: none"> ✓ Submit to the stock exchange ✓ Report to the financial authority ✓ Upload on a company's web-site
What do listed companies disclose	<ul style="list-style-type: none"> ✓ Profit & loss ✓ Balance sheet ✓ Cash flow ✓ No of shares outstanding and earnings per share ✓ Segment information ✓ Results overview ✓ Forecast

3

Parent or consolidated

Consolidated financial statements are more important

- ✓ Consolidated (group) financial statements are commonly used
- ✓ **In some markets, parent company's financial statements are also disclosed, in addition to consolidated numbers**
- ✓ **Investors care about consolidated numbers, not parent company's numbers**



4

What investors want to know: P/L and B/S

Additional information to profit and loss

- ✓ Sales breakdown (by segment, product, region etc)
- ✓ Cost breakdown (depreciation, personnel cost, key materials cost etc)

Additional information to balance sheet

- ✓ Depreciation method
- ✓ Inventory days
- ✓ Breakdown of bank borrowing
- ✓ Corporate bond information (amount, rate, redemption date etc)
- ✓ Equity finance history etc

5

What investors want to know: other information

Figures

- ✓ Production volume or shipment volume
- ✓ Other sales related figures (sales of property in sqm, no of shops etc)
- ✓ Prices (average selling price, average material purchase price etc)
- ✓ No of employees

Non-figure information

- ✓ Company milestone
- ✓ **Management's background**
- ✓ Important contracts (mining license, profit sharing, patent etc)
- ✓ Disputes etc

6

What investors want to know: management guidance

Once investors know the current status, they want to know outlook

- ✓ Sales forecast for the next quarter/half-year/year
- ✓ Profit forecast for the next quarter/half-year/year, alternatively gross profit margin forecast
- ✓ Production/shipment volume forecast
- ✓ Business outlook
- ✓ Industry outlook
- ✓ **Company's strategy**

7

Investor relations

Listed companies should assign staff for investor relations

- ✓ Every listed company needs to assign IR staff
- ✓ At smaller companies, financial controllers are usually responsible for IR
- ✓ It is necessary for IR staff to receive one-on-one meetings with key investors
- ✓ Financial statements and annual reports should be timely uploaded on websites
- ✓ Semi-annual or quarterly investor meetings after earnings release are **recommended, not only annual shareholders' meetings**
- ✓ **How can you attract investors to buy your company's shares ?**

8


APU's website: company information

APU COMPANY
Арсулы Пира Учуруба

Бидний тухай | Бүтээгдэхүүн | Нийгмийн хариуцлага | Мэдээ, мэдээлэл | Ажлын байр

Хайлт

Бидний тухай
Түүх
Ажлын харам, үнэт зүйлс
Байр хаягт олох
Харьяаг оруулахдаг



Хүснэгт ууган манай үйлдвэр АПУ ХК нь 1924 онд байгуулагдсан. Байгуулагдсан цагаасаа эхлэн Монгол Улсын хүнсний үйлдвэрлэлийн түүхийг ан бичилдэг, өндөрөн 90 жилийн туршианд нурлан бодлого, үйл ажиллагаа бүтэн байгуулалт болон олонд гаргасан амжилтаараа нямт түргүүлж ирсэн. Манай ажлынхон гол нэгжүүрэг нь хүний нөөцийн бодлого, дэвшилтэт төхивн технологийн, бүтээгдэхүүний чанар, падад, дотоодын олон улсад түргэн эвчлүүлэгдсэн байгуулалтуудтай тууштай, тасралтгүй нийтлэлтэй хамтран ажилладагт оршдог. Ийнхээрээ Бид дотоод дагууны далайршилтай зөв жөйлүүлэн ажлаж өмддөг.

Монголд бидэнд өвөг дэргэдээ уламжлан ирсэн "үзэгшлэлт" сайлан байгаль, өв их соёл манай манай компанийн үйлдвэрлэлийн үндэс: суурь, бүтээгдэхүүний өгч, дээжлж боддог. Манай АПУ ХК нь нийгмийн өмчө улсаас үнэт: хариуцлага чандан биелүүлж байгаль орчинд зөгий үйлдвэрлэлт ажилт, харьяа районы төлөөрэй нэгжлэй цогцлолын төлөө ажиллаж байна.

- Төс – Үүрэг олохыгата
- Телеграм – Бс үйл, сорм зай
- Тунгалаг – Соёл, бүтээгдэхүүний коддд

Энэ бол АПУ ХК-ийн нэр төв, эрдэм чанар юм.

9













APU's website: history

APU COMPANY
Арсулы Пира Учуруба

Бидний тухай | Бүтээгдэхүүн | Нийгмийн хариуцлага | Мэдээ, мэдээлэл | Ажлын байр

Хайлт

Бидний тухай
Түүх
Ажлын харам, үнэт зүйлс
Байр хаягт олох
Харьяаг оруулахдаг

	1924 Монгол-Оросын Нийгмийн Төв Корпорацийн үйлдвэр, Ардын Засгийн газрын 1/1	
	1925 Их зүүн харам ашигласнаар Ардмны үйлдвэрийг газрын өмчлөлтэй гүй өмддөг.	
	1927 Мөн улсын хөгжлийн үйлдвэрлэлийн тусламжтайгаар манай үйлдвэрлэл өргөжсөн.	
	1940 Мөнөөхөн харамны эргэн сар таван үйлдвэрлэл.	
	1948 Ардмийн Корпорацийн үйлдвэрлэлтэй хамтран ажиллаж байгаа үйлдвэрлэл.	
	1958 Шар айрманы үйлдвэрлэлтэй хамтран ажиллаж байгаа үйлдвэрлэлтэй хамтран ажиллаж байгаа үйлдвэрлэл.	
	1961 Хүннүүрлэлтэй дүрт үндэс, Жинхэнэ манайн үйлдвэрлэлтэй хамтран ажиллаж байгаа үйлдвэрлэл.	
	1963 "Удирдлага" ардмийн үйлдвэрлэлтэй хамтран ажиллаж байгаа үйлдвэрлэл.	

10

APU's website: press release

APU COMPANY
Absolute Pure Uisgiu

Бүтээгдэхүүн Нийгмийн хариуцлага Мэдээ мэдээлэл Ажлын байр

Хайлт

Бүтээгдэхүүн

- Түүх
- Ажлын хараа, үнэт зүйлс
- Бэл хайт олон
- Хөрөнгө оруулагчдад
 - Төлөвлөгөө
 - Мэдээлэл
 - Санхүүгийн мэдээлэл
 - Хувьцаа эзэмшэгчдийн хурал
 - Нэгдэл ашиг
 - ТУХ
 - Түгэлтэй удирдлага
 - Журал, дугуй
 - Үйл ажиллагааны тайлан

Made in Mongolia - Bloomberg

3 өдөр, 20 цаг өмнө [Дэлгэрэнгүй](#)

APU компани "Өсвөрийн шатарчдын Ази тивийн аварга" шалгаруулах ...

Улсын шатрын холбоо, Монголын шатрын холбоо хамтран зохион байгуулж байгаа "ӨСВӨРИЙН ШАТАРЧДЫН АЗИ ТИВИЙН АВАРГА" шалгаруулах тэмцээнийг АПУ компани дэмжин ...

6 өдөр, 16 цаг өмнө [Дэлгэрэнгүй](#)

Олон улсын эмэгтэйчүүдийн эрхийг хамгаалах өдрийг тэмдэглэн өнг...

Олон улсын эмэгтэйчүүдийн эрхийг хамгаалах өдрийг тэмдэглэж манай компанийн залуус, бүсгүйчүүдэд нүүдэллэн орсон авч дэлхийн сонгодог эхлэл, үнэн гайл...

1 сар өмнө [Дэлгэрэнгүй](#)

ХУВЬЦАА ЭЗЭМШИГЧДИЙН ЭЭЛЖИТ ХУРАЛ БОЛНО

Компанийн хэр АПУ хувьцаагчид хамт олон улс АПУ компани Чөлөөтэй өргөн чөлөө 14, Улаанбаатар-17940, Мөнгөл улс Утас: (+976) 11 341137(Жарал хураард олн...

1 сар, 1 долоо хоног өмнө [Дэлгэрэнгүй](#)

13

APU's website: financial statements

APU COMPANY
Absolute Pure Uisgiu

Бүтээгдэхүүн Нийгмийн хариуцлага Мэдээ мэдээлэл Ажлын байр

Хайлт

Бүтээгдэхүүн

- Түүх
- Ажлын хараа, үнэт зүйлс
- Бэл хайт олон
- Хөрөнгө оруулагчдад
 - Төлөвлөгөө
 - Мэдээлэл
 - Санхүүгийн мэдээлэл
 - Хувьцаа эзэмшэгчдийн хурал
 - Нэгдэл ашиг
 - ТУХ
 - Түгэлтэй удирдлага
 - Журал, дугуй
 - Үйл ажиллагааны тайлан

Санхүүгийн тайлан_Нэгдсэн_үйлсээс.pdf
Санхүүгийн_тайлан_Эмэгтэйд_төлөөл_2015_он.pdf
Санхүүгийн_тайлан_Уурагчдад_төлөөл_2015.pdf

Бүтээх хуулиар хянагдсан © 2016 | Энгийн Сонголт | Холбоо барих | Сайтын бүтэц

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14

APU's website: 3Q15 financial statements (1)

лист 33

Саяхүү байлалт тайлан

Тайлан үз: 2015.09.01 - 2015.09.30

Төрөлөөг

Аймагтай хүлээн	Боловсрол бүлэг	Төсвийн үзүүлэлт	Төсвийн үзүүлэлт
1	ХӨДӨӨНИЙ		
1.1	Эргэлтэнд орлого		
1.1.1	Мөнгө түргэтэй элсэлтэнд орлого	4,296,982,217.93	8,917,798,914.54
1.1.2	Дүнлэнгийн орлого	1,271,715,418.82	5,919,462,292.43
1.1.3	Төлбөр (ХӨДӨ) өндөр авсангай	(3,834,287,422.22)	(3,244,968,297.87)
1.1.4	Бусад орлого	3,607,897,914.17	6,751,278,754.56
1.1.5	Бусад өмчлөгчийн орлого	51,811,920.00	(33,811,400.00)
1.1.6	Бусад орлого	90,081,127,016.71	96,046,488,114.63
1.1.7	Урьдчилсан төлбөр өргөдөг өмчлөгч	2,478,276,704.00	7,205,704,704.18
1.1.8	Бусад өргөдөг өмчлөгч	0.00	0.00
1.1.9	Борлуулсан өргөдөг өмчлөгч (ХӨД) өргөдөг өмчлөгч (Борлуулсан бусад өргөдөг өмчлөгч)	0.00	0.00
1.1.10	Эргэлтэнд орлого бүр	161,208,786,616.43	95,441,894,933.14
1.2	Төлбөр өргөдөг өмчлөгч	223,987,440,710.51	313,146,576,286.94
1.2.1	Бусад өргөдөг өмчлөгч	883,430,362.84	704,478,842.11
1.2.2	Боловсролын өргөдөг өмчлөгч	86,213,419.00	107,474,000.00
1.2.3	Урьдчилсан төлбөр өргөдөг өмчлөгч	96,874,327.90	90,424,517.50
1.2.4	Хүний нөөц	0.00	0.00
1.2.5	Хөдөлгөөн хөдөлгөөн өргөдөг өмчлөгч	(5,516,827,128.81)	4,781,574,481.62
1.2.6	Хөдөлгөөн хөдөлгөөн өргөдөг өмчлөгч	0.00	0.00
1.2.7	Хөдөлгөөн хөдөлгөөн өргөдөг өмчлөгч	0.00	0.00
1.2.8	Бусад өргөдөг өмчлөгч	0.00	0.00
1.2.9	Эргэлтэнд орлого бүр	223,274,761,238.08	313,685,368,368.84
1.3	ХӨДӨГЧИЙН ӨМЧИЙН БҮЛЭГ	326,143,081,416.45	317,827,264,300.98
2	ХӨДӨГЧИЙН ӨМЧИЙН БҮЛЭГ		
2.1	Боловсролын өргөдөг өмчлөгч	0.00	0.00
2.1.1	Боловсролын өргөдөг өмчлөгч	416,681,948.47	352,351,951.68
2.1.2	Төлбөр өргөдөг өмчлөгч	(2,495,817,273.29)	1,742,899,811.80
2.1.3	Хүний нөөц	96,284,411.14	0.00
2.1.4	Боловсролын өргөдөг өмчлөгч	88,310,244,423.14	13,876,371,483.54
2.1.5	Хүний нөөц	1,142,514,689.00	1,216,701,204.62
2.1.6	Хүний нөөц	11,087,461,370.00	13,868,961,370.00
2.1.7	Хүний нөөц	0.00	0.00
2.1.8	Хүний нөөц	0.00	0.00
2.1.9	Хүний нөөц	0.00	0.00
2.1.10	Хүний нөөц	21,109,348,000.00	16,468,468,163.20
2.1.11	Борлуулсан өргөдөг өмчлөгч (ХӨД) өргөдөг өмчлөгч (Борлуулсан бусад өргөдөг өмчлөгч)	0.00	0.00
2.1.12	Боловсролын өргөдөг өмчлөгч бүр	81,348,964,976.62	65,916,264,539.22

APU's website:: 3Q15 financial statements (2)

2.1.2	Урьдчилсан төлбөр өргөдөг өмчлөгч	220,885,487,761.24	104,171,214,144.54
2.1.3	Хүний нөөц	0.00	0.00
2.1.4	Хөдөлгөөн хөдөлгөөн өргөдөг өмчлөгч	476,619,806.46	1,099,174,171.27
2.1.5	Хүний нөөц	0.00	5,715,617,289.62
2.1.10	Урьдчилсан төлбөр өргөдөг өмчлөгч бүр	338,881,487,465.78	189,624,999,987.21
2.2	Өргөдөг өмчлөгч өөрөө	392,328,646,906.58	174,824,256,276.43
2.3	Хүний нөөц	0.00	0.00
2.3.1	Хүний нөөц	74,281,700.00	74,281,700.00
2.3.2	Хүний нөөц	0.00	0.00
2.3.3	Хүний нөөц	(21,081.00)	(21,081.00)
2.3.4	Хүний нөөц	0.00	0.00
2.3.5	Хүний нөөц	0.00	0.00
2.3.6	Хүний нөөц	80,083,982,277.18	80,464,963,323.62
2.3.7	Хүний нөөц	0.00	0.00
2.3.8	Хүний нөөц	0.00	0.00
2.3.9	Хүний нөөц	11,227,480,000.17	45,942,864,364.64
2.3.10	Хүний нөөц	120,000,000,000.00	142,871,000,197.86
2.4	ХӨДӨГЧИЙН ӨМЧИЙН БҮЛЭГ	326,143,081,416.45	317,827,264,300.98

APU's website: annual shareholders' meeting

APU COMPANY
Астана Ғылым Улсаы

Бидней тухай | Бүткүлдүүкүн | Ныймийн харууларга | Мадат мэдээлел | Алын Байр | хайт | Ө

Бидней тухай

- Түк
- Алын караа, үнөт зүйлс
- Бай хайт оюн
- Харыга орууларгад
 - Тануулула
 - Мадатлар
 - Санкуулайн мадзала
 - Хуында элмашагч
 - Хуында элмашагчтын кураат
 - Нордот ашаг
 - ТУС
 - Түбүктөлгө үздөлгө
 - Жуулам дурган
 - Үйл ажилдганы талбай

2014 он

Хуында элмашагчтын кураат болсон окуя, гвар 2014 оны 04 сарын 28-ны күрө АТУ ХХКнин Хуында элмашагчтын элмаш кураат ХХКнин Соёлун олоодо 15:00 сагын болгон.

Жуулам мад Хуында элмашагчтын кураат ЦТТТК-ге 2014 оны 03 сарын 14-нөй күрөдө талбай болгон паргад хуында элмашагчтын дүлөктөй сүлдөлдөтүлгө болгон нөйт 68,820,365 хуындаг элмашагч 178 хуында элмашагч билеер оролдон нь 74,281,700 элмаш хуындагын 33,33 күн нь кураат оролдог сангайт өскөн түп кураат күнн телдөрдө болсон байна.

Хилдэлсэн асуудал Кураат дараах асуудлыг хилдэлсэн баталсан байна.

- Компаньин 2013 оны Үйл ажилдганы болон санкуулайн талбайнын талаарги Төлөвлөгч ирдэгдэ элмешин дүлөктөй кураат болгон.
- Төлөвлөгч ирдэгдэ элмешин бэрэ зөчөй курааткайт нь өмнө дугулаар болон шийдэргөй кураат эрлөгчтон шийдэргөй 98.87 күнөй сангаар баталсан.
- Төлөвлөгч ирдэгдэ элмешин шийдэргөй сонго.

Жуулам гарсан нийдэр

- Компаньин 2013 оны Үйл ажилдганы болон санкуулайн талбайнын талаарги Төлөвлөгч ирдэгдэ элмешин дүлөктөй кураат болгон шийдэргөй 98.87 күнөй сангаар баталсан.
- Төлөвлөгч ирдэгдэ элмешин бэрэ зөчөй курааткайт нь өмнө дугулаар болон шийдэргөй кураат эрлөгчтон шийдэргөй 98.87 күнөй сангаар баталсан.
- Төлөвлөгч ирдэгдэ элмешин шийдэргөй нийдэргөй эрлөгч сонго. Элмеш нийдэргөй П.Балтажан 69,804,319, П.Балчан 69,763,520, С.Балтагар 69,257,272, Г.Ормаш С.Б 46,758,778, Хилдэ Бароот 69,712,603, Төвөгс Хамматон 69,604,432, Харзат Бус нийдэргөй Төвөгс Оюк 69,749,362, Ж.Нийдэргөй 69,758,875, Карол Радантын 69,705,883 сангаар түс түс сонголдон байна.

2015 он

Хуында элмашагчтын кураат болсон окуя, гвар 2015 оны 04 дүлгө сарын 29-нөй күрө АТУ ХХКнин Хуында элмашагчтын элмаш кураат ХХКнин Соёлун олоодо 14:00 сагын болгон.

Жуулам мад Хуында элмашагчтын кураат ЦТТТК-с 2015 оны 04 дүлгө сарын 09-нөй күрөдө талбай болгон паргад хуында элмашагчтын дүлөктөй сүлдөлдөтүлгө болгон нөйт 69,669,851 хуындаг элмашагч 180 хуында элмашагч билеер оролдон нь 74,287,700 шийгэ элмаш хуындагкайт 34.19% болгон кураат оролдог сангайт өскөн түп кураат күнн телдөрдө болсон байна.

Хуулаар дараах асуудлыг хилдэлсэн баталсан байна:

- Компаньин 2014 оны Үйл ажилдганы болон санкуулайн талбайнын талаарги Төлөвлөгч ирдэгдэ элмешин дүлөктөй кураат болгон.
- Төлөвлөгч ирдэгдэ элмешин бэрэ зөчөй курааткайт нь өмнө дугулаар болгон.
- Төлөвлөгч ирдэгдэ элмешин шийдэргөй сонго.

Жуулам гарсан нийдэр

- Компаньин 2014 оны Үйл ажилдганы болон санкуулайн талбайнын талаарги Төлөвлөгч ирдэгдэ элмешин дүлөктөй кураат болгон шийдэргөй 99 күнөй сангаар баталсан.
- Төлөвлөгч ирдэгдэ элмешин бэрэ зөчөй курааткайт нь өмнө дугулаар болгон шийдэргөй кураат эрлөгчтон шийдэргөй 99% нь сангаар баталсан.
- Төлөвлөгч ирдэгдэ элмешин шийдэргөй нийдэргөй эрлөгч сонго. Элмеш нийдэргөй П.Балтажан-69,887,717, П.Балчан-69,872,700, С.Балтагар-69,830,282, Г.Ормаш С.Б-49,795,632, Хилдэ Бароот-69,905,942, Харзат Бус нийдэргөй С.Зардан-69,778,846, Оюмаш А.Б-69,781,351, Ж.Нийдэргөй-69,778,910 сангаар түс түс сонголдон байна.

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21

APU's website: dividend history

APU COMPANY
Астана Ғылым Улсаы

Бидней тухай | Бүткүлдүүкүн | Ныймийн харууларга | Мадат мэдээлел | Алын Байр | хайт | Ө

Бидней тухай

- Түк
- Алын караа, үнөт зүйлс
- Бай хайт оюн
- Харыга орууларгад
 - Тануулула
 - Мадатлар
 - Санкуулайн мадзала
 - Хуында элмашагч
 - Хуында элмашагчтын кураат
 - Нордот ашаг
 - ТУС
 - Түбүктөлгө үздөлгө
 - Жуулам дурган
 - Үйл ажилдганы талбай

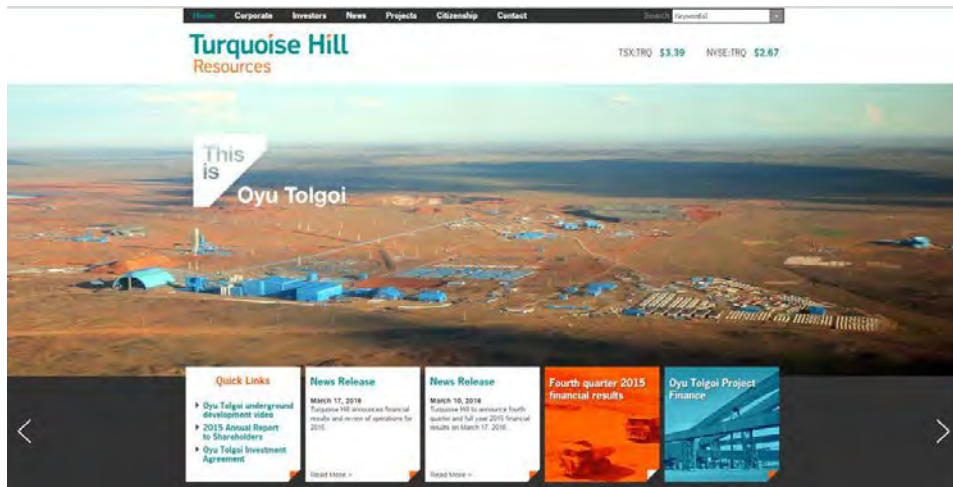
Нордот ашагын кууларелелт

№	Хилдэлгө он	Нөйт орууларга тоо лирелгө-Нордот ашаг	Нөйт хуындагын зарласан нордот ашаг	Нөйт нордот ашаг
1	2005 он	742,877	130	96,574,010
2	2006 он	742,877	60	44,572,620
3	2007 он	742,877	536	399,667,626
4	2008 он	74,287,700	10	742,877,000
5	2009 он	74,167,019	20	1,483,340,380
6	2010 он	74,167,019	40	2,966,680,760
7	2011 он	74,167,019	60	4,450,021,140
8	2012 он	74,167,019	70	5,191,691,330
9	2013 он	74,167,019	90	6,675,031,710
10	2014 он	74,167,019	0	0
11	2015 он	74,167,019	70	5,191,691,330
				27,242,148,106

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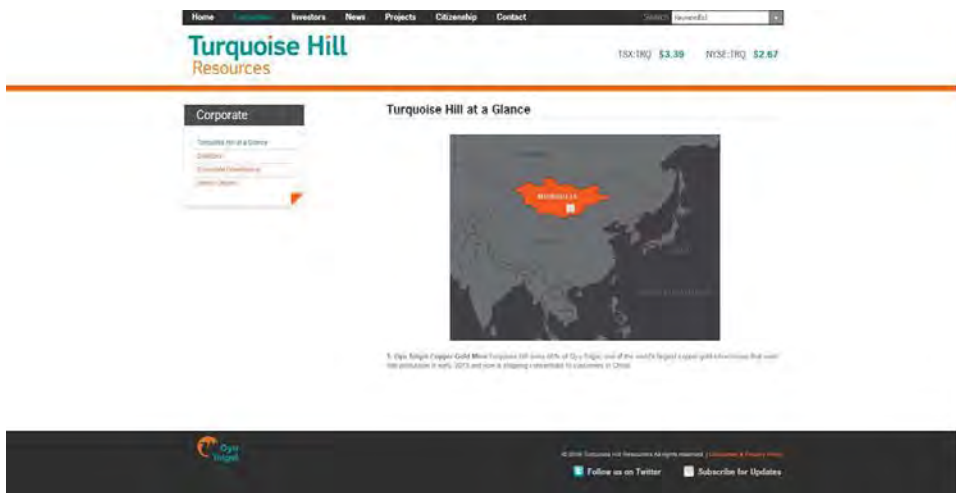
22

Turquoise Hill Resources website: top page



23

Turquoise Hill Resources website: corporate information



24

Turquoise Hill Resources website: management

The screenshot shows the 'Directors' section of the Turquoise Hill Resources website. The navigation bar includes Home, Corporate, Investors, News, Projects, Citizenship, and Contact. The page title is 'Directors' and the stock prices are TSX:TRQ \$3.39 and NYSE:TRQ \$2.67.

Directors

Information on the Directors and Executive Officers of Turquoise Hill Resources can be found at the company's website, www.turquoisehill.com.

JILL GARDNER
Chair

Ms. Gardner is currently a senior consultant and is a former Executive Director. She is a Director of Capital Power Corporation, Paragon Energy Services, Inc., and Sustainable Energy & Power.

Previously, Ms. Gardner spent three (3) years in the investment banking industry, most recently as Managing Director and Regional Head, U.S. for RBC Capital Markets. She also held senior positions in corporate finance, mergers and acquisitions, and M&A consulting, as well as serving as Head of the Forest Products Group and Head of the Energy & Mining Group. Prior to joining the investment banking industry, Ms. Gardner held a Senior Project Manager at the Ontario Energy Board and a Lecturer at the University of Guelph.

Ms. Gardner holds a Bachelor of Science and a Master of Commerce Administration (with Honours) from the University of Waterloo. She is a member of the Institute of Chartered Accountants.

Ms. Gardner was appointed Chair of the Turquoise Hill Resources Advisory Council (TRAC) with responsibility for the Turquoise Hill Board in May 2012.

JEFFERY TYGENSEN
Director

Mr. Tygensen has departed Chief Executive Officer of Turquoise Hill Resources on December 1, 2014. He has been a Turquoise Hill director since August 2012. Previously, Mr. Tygensen spent most of his career with the United States government in various positions, primarily in the technology, engineering and science industry. Most notably, he was the Assistant Chief, Recruitment of the Ford Cyber Center and was responsible for recruiting the Ford cyber center teams at its Chicago and International region operations. He supported various national initiatives including the Ford Cyber Center Regional Council Manager, the Ford Technology and Innovation Manager, Long Term and Strategic Planning, the Ford Energy Access Case, and Manager of Mine Development, (United States of America).

He is a member of the City of St. Louis Board of Directors.

Mr. Tygensen holds a Bachelor of Science degree (Mining Engineering) with a Master of Science degree (Mining Engineering) with Honours (M.Sc.) in the field of Metallurgical Engineering and the Institute of Corporate Directors.

PETER GILLIN
Director

25

Turquoise Hill Resources website: corporate governance

The screenshot shows the 'Corporate Governance' section of the Turquoise Hill Resources website. The navigation bar includes Home, Corporate, Investors, News, Projects, Citizenship, and Contact. The page title is 'Corporate Governance' and the stock prices are TSX:TRQ \$3.39 and NYSE:TRQ \$2.67.

Corporate Governance

Board Matters

- [Statement of Corporate Governance](#)
- [Public Reporting, Diversity on the Board of Directors and an Executive Officer](#)
- [Charter](#)
- [Nominating and Governance Policy](#)
- [Charter of the Audit Committee](#)
- [Charter of the Remuneration and Corporate Governance Committee](#)
- [Charter of the Health, Safety and Environment Committee](#)
- [Charter of the Compensation and Benefits Committee](#)

Corporate

- [Financial Reporting](#)
- [Directors](#)
- [Corporate Governance](#)
- [Board Structure](#)
- [Management of Corporate Governance](#)
- [Mining and Energy](#)
- [Charter of the Remuneration and Corporate Governance Committee](#)
- [Charter of the Health, Safety and Environment Committee](#)
- [Charter of the Compensation and Benefits Committee](#)
- [Board Structure](#)

26

Turquoise Hill Resources website: IR contact

The screenshot shows the 'Investors' page of the Turquoise Hill Resources website. The navigation bar includes Home, Corporate, Investors, News, Projects, Citizenship, and Contact. The page features the company logo and stock prices: TSE:TRQ \$3.39 and NYSE:TRQ \$2.67. A sidebar on the left lists various investor-related links such as Investor Home, Corporate and Social Media, and Investor Home. The main content area is titled 'Investors' and includes contact information for Tony Shaffer, Investor Relations, with a phone number and email address. It also lists the Investor Agent, The Investor Agent and Registrar for Turquoise Hill, and provides details about the company's listing on the TSX and NYSE.

27

Turquoise Hill Resources website: share price

The screenshot shows the 'Stock Info' page of the Turquoise Hill Resources website. The navigation bar is the same as in the previous screenshot. The page features the company logo and stock prices: TSE:TRQ \$3.39 and NYSE:TRQ \$2.67. A sidebar on the left lists various investor-related links. The main content area is titled 'Stock Info' and includes a section for '2012 Report of Operational Actions Affecting Status of Securities' and '2011 Report of Operational Actions Affecting Status of Securities'. Below this, there are two line charts showing the share price for TSE:TRQ and NYSE:TRQ. The TSE:TRQ chart shows a price range from 1.00 to 1.50, and the NYSE:TRQ chart shows a price range from 0.50 to 1.00. Both charts include a table of key statistics such as Last, Change, % Change, Time, Buy, Sell, Bid, Ask, Day, Low, High, Open, Prev, and Volume.

28

Turquoise Hill Resources website: commodity prices

The screenshot shows the Turquoise Hill Resources website. At the top, there is a navigation menu with links for Home, Corporate, Investors, News, Projects, Citizenship, and Contact. A search bar is located on the right. The company logo 'Turquoise Hill Resources' is prominently displayed. Below the logo, the stock prices are shown: TSX:TRQ \$3.39 and NYSE:TRQ \$2.67. The main content area is divided into two sections. On the left is a sidebar titled 'Investors' with various links. On the right is the 'Commodity and Metal Prices' section, which contains two line charts. The first chart is titled '2017 Copper' and shows a price trend from 2014 to 2017, with a peak in early 2017. The second chart is titled '2017 Silver' and shows a similar price trend. At the bottom of the page, there is a footer with the company logo, copyright information, and social media links for Twitter and LinkedIn.

29

Turquoise Hill Resources website: presentation files

The screenshot shows the Turquoise Hill Resources website. At the top, there is a navigation menu with links for Home, Corporate, Investors, News, Projects, Citizenship, and Contact. A search bar is located on the right. The company logo 'Turquoise Hill Resources' is prominently displayed. Below the logo, the stock prices are shown: TSX:TRQ \$3.39 and NYSE:TRQ \$2.67. The main content area is divided into two sections. On the left is a sidebar titled 'Investors' with various links. On the right is the 'Presentations and Briefings' section. This section contains a list of presentation files with dates and titles. The list includes: 'Turquoise Hill Q4 2016 Global Status & Mining Conference - March 2016', 'Turquoise Hill Q3 2016 Investor Presentation - January 2016', 'Turquoise Hill Q2 2016 Investor Presentation - October 2015', 'Turquoise Hill Investor Presentation - November 2014', 'Turquoise Hill Site Visit - August 2014', 'TRC Global Mining and Minerals Conference - June 2014', 'Bank of America Merrill Lynch Global Metals and Mining Conference - September 2013', 'CIBC QCM presentation', 'Turquoise Hill Investor Presentation - April 2013', 'Barrick 2014 Global Metals and Mining Conference - February 2014', 'TRC (Duke) Technical Metals Conference - January 2014', 'Dow and Company Global Metals Mining and Mining Conference - November 2014', 'Turquoise Hill Site Visit - October 2013', 'Turquoise Hill Bank of America Merrill Lynch Global Metals and Mining Conference - May 2014', and 'Annual General Meeting of Shareholders - May 2014'. At the bottom of the page, there is a footer with the company logo, copyright information, and social media links for Twitter and LinkedIn.

30

Turquoise Hill Resources website: presentation file (1)



31

Turquoise Hill Resources website: presentation file (2)

Investment summary

Open pit in production

- Concentrator performance improving; currently averaging above nameplate capacity
- All-In Sustaining Cost of \$1.29 per pound of copper (September 2015)
- Cash of \$1.3 billion (September 2015)
- Investment to date of > \$6.5 billion

Strong progress toward re-starting underground construction

- May 2015 - Underground Development Plan resolved shareholder issues and maintained Investment Agreement
- December 2015 - Signing of project finance (\$4.4 billion)
- Long-life, high-grade asset with significant expansion potential
- Underground copper grades 3.6 times open pit
- Targeting mid-2016 re-start

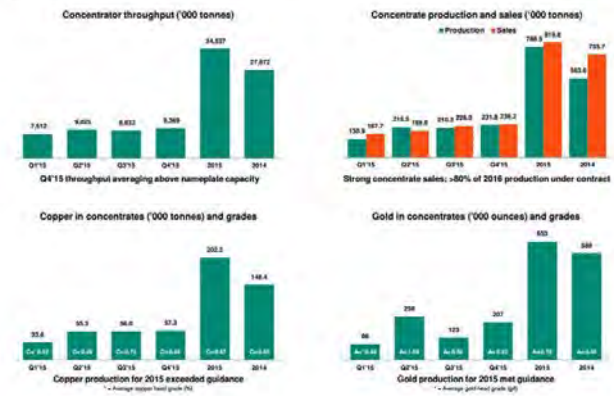
Refreshing underground capital estimate

- CAPEX not expected to materially change from current estimate
- Productivity initiatives and cost reductions to be included in updated feasibility study
- Mine plan optimization included in underground development

32

Turquoise Hill Resources website: presentation file (3)

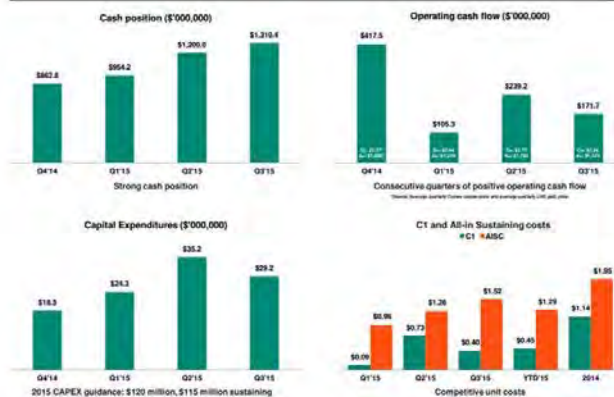
Production highlights



33

Turquoise Hill Resources website: presentation file (4)

Financial highlights



34

Highly-attractive economics

2014 Reserve Case

Total Processed (Bt)	1.5
Copper Grade (%)	0.85
Gold Grade (g/t)	0.32
Silver Grade (g/t)	1.94
Copper Recoverable (B lb)	24.9
Gold Recoverable (M oz)	11.9
Silver Recoverable (M oz)	78.0
Life (years)	41
Expansion Capital (US\$B)	4.9
NPV (8.0%) After Tax (US\$B)	7.4
IRR After Tax	29%
Payback Period (years)	9

Source: 2014 Q3 Filing Technical Report
Note: US\$ amounts presented in real 2015 terms, expansion capital includes only direct project costs

Reserve Case (Feasibility Study)

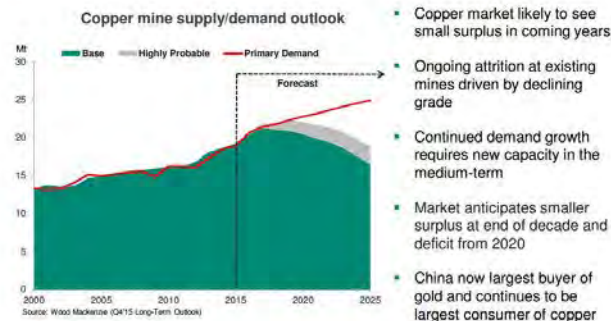


Life of Mine Case*



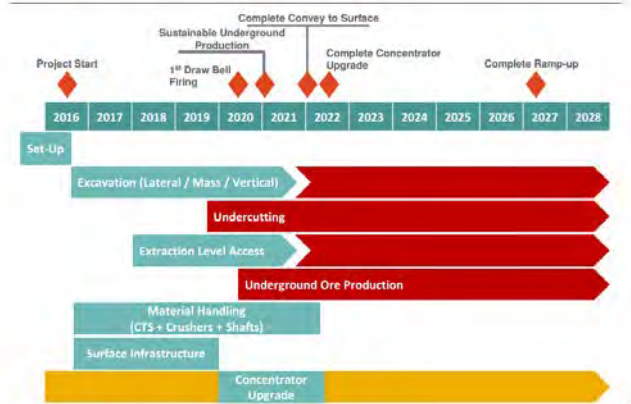
* Note: Life of Mine Case includes interest, therefore not included in economic evaluation

Long-term copper fundamentals strong



Turquoise Hill Resources website: presentation file (7)

Probable development schedule



37

Turquoise Hill Resources website: earnings releases

The screenshot shows the Turquoise Hill Resources website. The top navigation bar includes Home, Corporate, Investors, News, Projects, Citizenship, and Contact. The search bar contains the text "keyword". The page title is "Turquoise Hill Resources" and the stock prices are listed as TSX:TRQ \$3.39 and NYSE:TRQ \$2.67. The main content area is titled "Quarterly Reports" and lists reports for 2015, 2014, and 2013. The 2015 reports include: Fourth quarter 2015 financial results and review of operations, Third quarter 2015 financial results and review of operations, Second quarter 2015 financial results and review of operations, and First quarter 2015 financial results and review of operations. The 2014 reports include: Fourth quarter 2014 financial results and review of operations, Third quarter 2014 financial results and review of operations, Second quarter 2014 financial results and review of operations, and First quarter 2014 financial results and review of operations. The 2013 reports include: Fourth quarter 2013 financial results and review of operations, Third quarter 2013 financial results and review of operations, Second quarter 2013 financial results and review of operations, and First quarter 2013 financial results and review of operations. The page footer includes the Turquoise Hill Resources logo, copyright information for 2016, and social media links for Twitter and Facebook.

38

Turquoise Hill Resources website: 2015 earnings release (1)

**Turquoise Hill
Resources Ltd.**

March 17, 2016

Press release

Turquoise Hill announces financial results and review of operations for 2015

VANCOUVER, CANADA – Turquoise Hill Resources today announced its financial results for the year ended December 31, 2015. All figures are in U.S. dollars unless otherwise stated.

HIGHLIGHTS

- Oyu Tolgoi achieved an excellent safety performance for 2015 with an All Injury Frequency Rate of 0.33 per 200,000 hours worked.
- In May 2015, the Oyu Tolgoi Underground Mine Development and Financing Plan was signed addressing key outstanding shareholder matters and setting out long-term funding of the project.
- In August 2015, Oyu Tolgoi filed revised schedules for the statutory feasibility study with the Mongolian Minerals Council.
- In December 2015, Oyu Tolgoi signed a \$4.4 billion project financing facility provided by a syndicate of international financial institutions, export credit agencies and 15 commercial banks.
- Underground pre-start activities are underway in parallel with an update to the feasibility study capital estimate, which is expected to be complete in Q1'16.
- Turquoise Hill continues to expect approval of the updated 2016 feasibility study and notice to proceed decisions by the various boards for underground construction in Q2'16.
- Oyu Tolgoi recorded revenue of \$1.6 billion in 2015 on record concentrate sales of 819,800 tonnes reflecting higher concentrate sales volumes partially offset by lower copper and gold prices.
- In Q4'15, Oyu Tolgoi recorded revenue of \$355.6 million on concentrate sales of 238,200 tonnes, reflecting lower copper and gold prices combined with lower sales of metal in concentrate.
- Turquoise Hill generated operating cash flow before interest and taxes of \$650.5 million in 2015.
- In 2015, cash operating costs¹ at Oyu Tolgoi were \$962.6 million including \$59.9 million in non-recurring charges for the May 15 underground agreement and underground early works expensed.
- For 2015, Oyu Tolgoi generated C1¹ costs of \$0.57 per pound of copper and all-in sustaining costs² of \$1.37 per pound of copper, a decrease of 50.0% and 29.7% respectively over 2014.
- Capital expenditure on a cash basis for 2015 was \$116.2 million, primarily attributed to sustaining activities.
- For 2015, Oyu Tolgoi's second full year of production, the mine operated at record levels.

39

Turquoise Hill Resources website: 2015 earnings release (2)

**Turquoise Hill
Resources Ltd.**

- Productivity improvements in the concentrator implemented throughout 2015 led to throughput exceeding nameplate capacity by year end and increasing by 23.9% over 2014.
- For Q4'15, concentrator throughput increased 8.5% over Q3'15 reaching an all-time quarterly high.
- In 2015, copper production of 202,200 tonnes exceeded the Company's guidance and annual gold production of 653,000 ounces met guidance.
- Compared to 2014, 2015 mined production increased 19.3%, concentrate production increased 39.9%, copper production increased 36.3% and gold production increased 10.9%.
- Oyu Tolgoi is expected to produce 175,000 to 195,000 tonnes of copper and 210,000 to 260,000 ounces of gold in concentrates for 2016.
- Sales contracts have been signed for approximately 90% of Oyu Tolgoi's expected 2016 concentrate production.
- In September 2015, Oyu Tolgoi surpassed 1.5 million tonnes of concentrate shipped.
- Turquoise Hill's cash and cash equivalents at December 31, 2015 were approximately \$1.3 billion.

FINANCIAL RESULTS

In 2015, the Company recorded net income attributable to owners of Turquoise Hill of \$313.3 million or \$0.18 per share compared with net income of \$20.9 million or \$0.01 per share in 2014, an increase of \$292.4 million. The increase is mainly attributable to a \$210.2 million non-cash impairment charge recorded in 2014 on reclassification of SouthGold to assets held for sale, and a deferred tax asset of \$155.0 million recognized in 2015, partially offset by adjustments for inventory write-down of \$103.2 million. Operating cash flows before interest and taxes in 2015 were \$650.5 million compared with \$718.5 million in 2014, reflecting the impact of lower commodity prices on sales revenue, offset by the continued production and delivery cost improvements and effective working capital management.

Capital expenditure on property, plant and equipment was \$116.2 million on a cash basis in 2015, primarily attributed to sustaining capital activities.

Turquoise Hill's cash and cash equivalents at December 31, 2015 were approximately \$1.3 billion.

OYU TOLGOI COPPER-GOLD MINE

The Oyu Tolgoi mine is approximately 550 kilometres south of Ulaanbaatar, Mongolia's capital city, and 80 kilometres north of the Mongolia-China border. Mineralization on the property consists of porphyry-style copper, gold, silver and molybdenum contained in a linear structural trend (the Oyu Tolgoi Trend) that has a strike length extending over 20 kilometres. Mineral resources have been identified in a series of deposits throughout this trend. They include, from south to north, the Heruga Deposit, the Southern Oyu deposits (Southwest Oyu, South Oyu, Wedge and Central Oyu) and the Hugo Dummett deposits (Hugo South, Hugo North and Hugo North Extension).

The Oyu Tolgoi mine has initially been developed as an open-pit operation. A copper concentrate plant, with related facilities and necessary infrastructure to support a nominal throughput of 100,000 tonnes of ore per day, has been constructed to process ore mined from the Southern Oyu open pit. Long term development plans for Oyu Tolgoi are based on a 95,000-tonne-per-day underground block-cave mine. In August 2013, development of the underground mine was suspended pending resolution of matters with the Government of Mongolia. On May 18, 2015, Turquoise Hill, the Government of Mongolia and Rio Tinto signed the Oyu Tolgoi Underground Mine Development and Financing Plan, which addressed key outstanding shareholder matters and set out an agreed basis for the funding of the project.

40

Turquoise Hill Resources website: 2015 earnings release (3)



Preparation for underground development

Following the filing of revised schedules for the statutory feasibility study with the Mongolian Minerals Council in August 2015, pre-start activities began in parallel with an update to the capital estimate, which is expected to be complete in Q1'16. Post-start activities include ramp-up of the owners and EPCM teams, re-estimate activities, detailed engineering and early procurement for equipment and materials required for necessary critical works that are key enablers for recommencement of underground lateral development mining activity. Care and maintenance activities have continued for Shaft #1, facilities and mobile equipment. Appointments to key roles in the underground team are well underway, with key staff starting in Q1'16. Turquoise Hill expects the Notice to Proceed decision for underground construction in Q2'16.

Prior to the suspension in August 2013, underground lateral development at Hugo North had advanced approximately 15 kilometres off Shaft #1. Sinking of Shaft #2, the primary operations access and initial production hoisting shaft, had reached a depth of 1,168 metres below surface, 91% of its final depth of 1,284 metres. The 95 metre-high Shaft #2 concrete headframe has been constructed. Sinking of Shaft #3, a dedicated exhaust ventilation shaft, had reached a depth of 208 metres, 17% of its final depth of 1,174 metres. Surface facilities, including offices, mine dry, and workshop, are in place to support initial pre-production development and construction.

Full-year 2015 and Q4'15 performance

Safety continues to be a major focus throughout Oyu Tolgoi's operations and the mine's management is committed to reducing risk and injury. Oyu Tolgoi achieved an excellent safety performance for 2015 with an All Injury Frequency Rate of 0.33 per 200,000 hours worked.

Key financial metrics for 2015 and Q4'15 are as follows:

Oyu Tolgoi Key Financial Metrics*

	4Q 2014	1Q 2015	2Q 2015	3Q 2015	4Q 2015	Full Year 2015	Full Year 2014
Revenue (\$ in millions of dollars)	870.8	428.2	421.3	431.7	355.6	1,634.4	1,725.8
Concentrates sold (000 tonnes)	262.7	167.7	186.6	226.0	236.2	819.8	733.7
Revenue by metal in concentrates (\$ in millions of dollars)							
Copper	368.9	180.2	220.3	224.5	194.9	839.4	1,006.9
Gold	296.4	232.3	197.4	202.4	159.4	788.9	800.0
Silver	5.7	3.6	3.6	4.4	4.8	16.2	16.2
Cost of sales (\$ in millions of dollars)	492.8	237.9	228.7	232.2	238.2	879.8	1,235.1
Production and delivery costs	279.5	173.9	147.4	150.4	148.7	629.4	545.8
Depreciation and depletion	123.3	63.9	78.2	82.0	89.5	344.8	389.3
Capital expenditures on cash basis (cash flows) (\$ in millions of dollars)	18.0	24.3	38.1	39.3	27.8	159.2	242.3
Royalties	36.6	21.9	45.9	24.1	35.0	139.8	91.5
Cash operating costs (\$ in millions of dollars)**	218.8	284.6	222.5	238.6	263.8	929.8	884.4
Unit costs (\$ per pound of copper)**							
C1	0.96	0.73	0.40	0.89	0.87	0.87	1.14
All-in sustaining	0.86	1.26	1.52	1.68	1.57	1.57	1.55

* Beginning on January 1, 2016, Turquoise Hill began preparing its financial statements in accordance with IFRS. All financial metrics included in the above table and reported on the accompanying PFD basis. Any financial information in the MD&A should be reviewed in consultation with the Company's consolidated financial statements.

** These refer to Section 15 – NON-GAAP MEASURES – on page 27 of the MD&A for reconciliation of these metrics, including total cash operating costs, to the financial statements.

41

Turquoise Hill Resources website: 2015 earnings release (4)



Key Statistics

	4Q 2014	1Q 2015	2Q 2015	3Q 2015	4Q 2015	Full Year 2015	Full Year 2014
Operating results							
Open pit mineral reserve (000 tonnes)	18,844	21,869	22,094	23,969	23,708	81,771	75,619
One treated (000 tonnes)	7,205	7,512	6,025	6,632	6,569	34,337	27,872
Average mill feed grade:							
Copper (%)	0.74	0.52	0.66	0.75	0.68	0.67	0.60
Gold (g/t)	1.46	0.48	1.26	0.55	0.92	0.79	0.88
Silver (g/t)	1.60	1.16	1.40	1.30	1.67	1.36	1.02
Concentrates produced (000 tonnes)	166.7	126.9	215.1	210.3	231.6	788.8	653.9
Average concentrate grade (% Cu)	26.9	25.7	25.6	25.6	24.7	26.8	26.3
Production of metals in concentrates							
Copper (000 tonnes)	60.3	23.6	55.3	56.0	87.3	302.2	148.4
Gold (000 ounces)	279	86	238	123	207	823	586
Silver (000 tonnes)	286	184	287	288	346	1,220	893
Sales of metals in concentrates:							
Copper (000 tonnes)	47.6	41.1	46.3	58.2	64.7	209.1	135.6
Gold (000 ounces)	263	200	177	200	140	737	561
Silver (000 tonnes)	382	219	258	234	360	1,199	1,093
Metal recovery (%)							
Copper	90.7	86.8	85.8	86.4	86.4	87.6	85.1
Gold	78.6	71.8	75.8	76.4	74.2	74.4	76.8
Silver	71.6	65.4	70.8	72.0	70.8	68.8	62.3
Financial results*							
Revenue (\$'000,000)	870.8	428.2	421.3	431.7	355.6	1,634.4	1,725.6
Concentrates sold (000 tonnes)	262.7	167.7	186.6	226.0	236.2	819.8	733.7
Revenue by metal in concentrates (\$'000,000)							
Copper	368.5	180.2	220.3	224.5	194.9	839.6	1,006.9
Gold	296.4	232.3	197.4	202.4	159.4	788.9	800.0
Silver	5.7	3.6	3.6	4.4	4.8	16.2	16.2
Operating cash flow	417.5	183.3	239.2	171.3	134.9	803.9	716.5
Cost of sales (\$'000,000)	492.8	237.9	228.7	232.2	238.3	879.1	1,234.1
Production and delivery costs	279.5	173.9	147.4	150.4	148.7	629.4	545.8
Depreciation and depletion	123.3	63.9	78.2	82.0	89.6	344.8	389.3
Capital on cash basis (cash flows) (\$'000,000)	18.0	24.3	38.1	39.3	27.8	159.2	242.3
Royalties	36.6	21.9	45.9	24.1	35.0	139.8	91.5
Cash operating costs (\$'000,000)**	218.8	284.6	222.5	238.7	263.8	929.8	884.4
Unit costs (\$ per pound of copper)**							
C1	0.96	0.73	0.40	0.88	0.87	0.87	1.14
All-in sustaining	0.86	1.26	1.52	1.68	1.57	1.57	1.56
Financial position							
Cash and cash equivalents (\$'000,000)	862.8	954.2	1,168.9	1,310.4	1,341.9	1,342.8	882.8

* Beginning on January 1, 2016, Turquoise Hill began preparing its financial statements in accordance with IFRS. All financial metrics included in the above table and reported on the accompanying PFD basis. Any financial information in the MD&A should be reviewed in consultation with the Company's consolidated financial statements.

** These refer to Section 15 – NON-GAAP MEASURES – on page 27 of the MD&A for reconciliation of these metrics, including total cash operating costs, to the financial statements.

† Total additions for Q1'16 include an adjustment of \$4.0 million, which reduced the carrying amount of underground evaluation costs (as defined in previous quarters) to be in accordance with IFRS. Company's accounting policy on the recognition of exploration and evaluation costs.

42

Turquoise Hill Resources website: 2015 earnings release (5)

Resources Ltd.

In accordance with the ARSHA, a subsidiary of the Company has funded the common share investments in Oyu Tolgoi on behalf of Erdenes. These funded amounts earn interest at an effective annual rate of LIBOR plus 6.0% and are repayable, by Erdenes to a subsidiary of the Company, via a pledge over Erdenes' share of Oyu Tolgoi common share dividends. Erdenes also has the right to reduce the outstanding balance by making cash payments at any time. As at December 31, 2015, the cumulative amount of such funding was \$751.1 million, representing approximately 34% of invested common share equity, unrecogized interest on the funding amounted to \$231.1 million.

Operational outlook

Oyu Tolgoi is expected to produce 175,000 to 195,000 tonnes of copper and 210,000 to 260,000 ounces of gold in concentrates for 2016. Open-pit operations are expected to mine in phases 2, 3 and 6 during the year as well as begin stripping for phase 4. In addition, stockpiled ore is anticipated to be processed during the year. The reduction in gold compared to 2015 is expected to result from mining in lower-grade gold areas and processing lower-grade stockpiled ore. The majority of 2016 gold production is expected in the first half of the year.

Operating cash costs for 2016 are expected to be approximately \$800 million. The reduction compared to 2015 operating cash costs is mainly related to additional capitalization of phase 4 stripping costs.

Capital expenditures for 2016 on a cash-basis, excluding underground development, are expected to be approximately \$300 million, of which approximately \$280 million relates to sustaining capital. Sustaining capital reflects increased capitalization of phase 4 deferred stripping costs.

For underground development, Turquoise Hill will provide capital guidance for 2016 once a final Notice to Proceed decision is confirmed.

Sales contracts have been signed for approximately 90% of Oyu Tolgoi's expected 2016 concentrate production.

Exploration during 2015

Oyu Tolgoi's exploration program focused on near surface targets using geochemical surveys and detailed ground magnetic surveys to identify porphyry style mineralisation. In December 2015, Turquoise Hill acquired a second exploration licence within 50 kilometers of Oyu Tolgoi.

SOUTHGOBI

During 2015, the Company pursued a strategy of divesting its holding in SouthGobi, which amounted to 104.8 million shares (47.9%) at January 1, 2015. Sale of 50.4 million shares in SouthGobi to Novel Sunrise Investments Limited (NSI) was completed between April 23 and June 3, 2015 at a price of C\$0.35 per share.

At December 31, 2015, following dilution of the Company's interest on November 30 as the result of issuance to the China Investment Corporation (CIC) of 11.9 million new SouthGobi shares, and general market sales in accordance with the Company's ongoing divestment strategy, Turquoise Hill owned 49.3 million shares (19.2%). The Company's remaining interest in SouthGobi is recorded as an available-for-sale investment within financial assets, with a fair value (based on the quoted share price) of \$14.5 million at December 31, 2015.

See Note 14 to the annual consolidated financial statements for the year ended December 31, 2015 for more information.



Accounting Scandals and False Reports

13 April 2016

Ryota Sugishita
JICA Consultant, Daiwa Institute of Research

Case 1: Seibu Railway - false annual securities reports (1)

Company background	Seibu Railway is a railway company with a history of 120 years. The company's railway network starts from two of major stations in Tokyo to the northwest.
What the company did	Seibu Railway made false statements purposely in its annual securities reports for years.
What Tokyo Stock Exchange did	Tokyo Stock Exchange imposed a penalty of fine decided to delist Seibu Railway from Tokyo Stock Exchange First Section.
What FSA did	Securities and Exchange Surveillance Commission (SESC) under FSA filed a charge to Tokyo District Court. The Court ordered Seibu Railway to pay a fine of JPY 200m and Kokudo, its parent company, a fine of JPY 150m. CEO of Kokudo was sentenced to 2.5 years in prison, suspended for four years.

Case 1: Seibu Railway - false annual securities reports (2)

- ✓ Seibu Railway's false reporting was mainly on its shareholder distribution. The company wrote in its annual securities reports that a percentage share of the aggregate number of shares held by top 10 shareholders was lower than it actually was.
- ✓ The single largest shareholder of Seibu Railway had been Kokudo, an unlisted company. Kokudo was under full control of Yoshiyuki Tsutsumi, ex-CEO of Seibu Railway and Kokudo.
- ✓ The 10 largest shareholders of Seibu Railway, including Kokudo, held more than 80% of the total shares outstanding as at Oct 1982, when Tokyo Stock Exchange implemented a new delisting rule that any listed company would be delisted if its shareholder distribution for the top 10 shareholders exceeded 80%.
- ✓ Seibu Railway's shareholder distribution continued violating this rule till 2004, when the company was finally delisted.

3

Case 1: Seibu Railway - false annual securities reports (3)

- ✓ How did Seibu manage to hide this fact ? Part of Seibu Railway's shares held by Kokudo were registered as Kokudo's employees' names, but the employees did not have any rights as shareholders.
- ✓ On 12 Oct 2014, after Seibu Railway's internal control division decided to report this to Tokyo Stock Exchange, the company was transferred to the supervision post, then delisting was determined on 16 Nov, delisted on 17 Dec.
- ✓ What do you think Seibu Railway's essential issue was ?
- ✓ False statements in any disclosure materials including annual securities reports, annual reports and others cannot be acceptable. Investors presume that information given in an annual securities report/annual report is correct. Investors decide their investments, based on the financial numbers and other statements in the reports.

4

Case 1: Seibu Railway - false annual securities reports (4)

- ✓ Then why did Seibu Railway falsify its annual securities reports for almost 50 years ? We think that this is attributed to Seibu's corporate governance problem. Seibu's founder's son, Yoshiyuki Tsutsumi, tried holding as many shares as possible to control the group, despite it was a listed company since 1949.
- ✓ Kokudo, an unlisted company, held 65-82% of Seibu Railway's shares since 1957. Kokudo's share capital was only JPY 100m, compared to Seibu Railway's more than JPY 21bn.
- ✓ Almost 100% of Kokudo's shares were held by Yoshiyuki Tsutsumi, although it was reported 36% officially.

5

Case 2: Olympus - financial statement fraud (1)

Company background	Founded as a camera manufacturer, Olympus is known as the largest endoscope manufacturer in the world with a global market share of 70%.
What the company did	Olympus falsified its financial statements on revaluation of its financial assets.
What TSE did	TSE classified Olympus as securities under supervision, then designated as securities on alert and imposed a fine of JPY 10m. TSE decided not to delist Olympus.
What FSA did	SESC imposed a fine of JPY 192m, then reduced to JPY 20m, as a result of Tokyo District Court's order to Olympus to pay JPY 700m in fines for falsifying its financial reports. Ex-CEO was sentenced to 3 years in prison, suspended for 5 years.

6

Case 2: Olympus - financial statement fraud (2)

- ✓ How did Olympus manage to hide loss of its financial assets ?
- ✓ In 1985, Olympus reportedly started to allocate its funds in the capital markets to gain higher income. In 90's the company faced huge valuation loss of its financial assets as a result of weak share prices in the Japanese stock market.
- ✓ In 1998, Olympus established a fund in overseas, and transferred part of its financial assets. The purpose of the fund was to cover its revaluation loss. It appeared that goodwill upon Olympus's M&A activities was added to the fund, and higher-than-usual expensive financial advisory fees were paid the fund.
- ✓ In 1999, Olympus's auditor found a part of the revaluation loss. The company posted extraordinary loss of JPY 16.8bn for Mar 2000.
- ✓ I used to be an equity analyst, covering Olympus those days. I remembered this extraordinary loss. Market had suspected that Olympus hid huge revaluation loss. Investors and analysts, including myself, asked the company if all of its revaluation loss was reported. The company replied, that was all.

7

Case 2: Olympus - financial statement fraud (3)

- ✓ In 2009, Olympus's auditor was changed. Perhaps the former auditor and Olympus were not able to reach agreement on its financial statements.
- ✓ In Apr 2011, Michael Woodford was assigned as Olympus's new CEO. He was asked to step down at the board meeting on 14 Oct 2011. Mr Woodford apparently pointed out company's fake financial statements.
- ✓ Mr Woodford then revealed Olympus's financial secret to the media.
- ✓ What do you think Olympus's problem was ?
- ✓ In Japan, CEOs of listed companies tend to be replaced by every several years, unless they are founders. Olympus's past several CEOs should have known the revaluation loss issue, but all of them decided to hide.
- ✓ Perhaps the Japanese CEOs did not want to see plunging share prices as a result of disclosure. If the company unveiled huge loss, management had to step down. They did not want to do so. It seems that they tried to cover its loss gradually for years.

8

Case 2: Olympus - financial statement fraud (4)

- ✓ Mr Woodford, however, is British. He should have been shocked when he found out the fact that the company was falsifying its financial statements. False financial statements will result in deceiving investors.
- ✓ The Olympus incident was a serious lesson to capital markets in Japan, revealing that there are still compliance and corporate governance issues even for a major listed company.
- ✓ Olympus hid revaluation loss of JPY 100bn or over. According to Tokyo Stock Exchange's delisting rule, a company that falsifying its annual securities reports may be delisted if it gives substantial impact to the stock market.
- ✓ People had expected for Olympus to be delisted. In fact, Olympus shares dropped substantially. Amount of financial impact of JPY 100bn appears to be crucial. But the company was not delisted.
- ✓ Why do you think Olympus was not delisted ?

9

Case 3: Toshiba - financial statement fraud (1)

Company background	Toshiba is a diversified electronics company. Its products include power generators, elevators, notebook PCs, semiconductors, consumer electronics etc.
What the company did	Toshiba falsified its financial statements on its provisions for contract loss, sales, cost of goods sold etc.
What JPX did	JPX designated Toshiba as securities on alert and imposed a fine of JPY 91m.
What FSA did	SESC imposed a fine of JPY 7.3bn. Separately Ernst & Young Shin-Nihon, Toshiba's auditor, was also imposed a fine of JPY 2.1bn. Media reports that there is possibility of filing a charge for ex-CEO.

10

Case 3: Toshiba - financial statement fraud (2)

- ✓ For your information, an ex-CEO of Toshiba was positioned as CEO of Tokyo Stock Exchange for 2005-2010.
- ✓ Similar to Olympus, Toshiba was also accused of its financial fraud. Toshiba reported higher-than-actual profit in the past years, by too low provision for construction contract loss and reporting too high sales revenue.
- ✓ On 29 May 2015, Toshiba suddenly announced that it was not able to meet the deadline of submitting its annual securities report for Mar 2015. The company said that it would be by the end of Aug 2015, instead of Jun 2015. Listed companies with financial year end of Mar have to submit annual securities reports by the end of Jun.
- ✓ Toshiba again postponed the submission date to 7 Sep 2015.
- ✓ On 14 Sep 2015, Tokyo Stock Exchange designated Toshiba as securities on alert. At the same time, Toshiba was fined of JPY 91m by Tokyo Stock Exchange.

11

Case 3: Toshiba - financial statement fraud (3)

- ✓ On 7 Dec 2015, SESC ordered Toshiba to pay fine of JPY 7.3bn, which is the highest amount in SESC's history.
- ✓ SESC also ordered E&Y Shin-Nihon, Toshiba's auditor, to pay fine of JPY 2.1bn, which is also a substantial amount.
- ✓ In addition, SESC questioned Toshiba's ex-CEO on a voluntary basis. Media suspects the ex-CEO would be arrested.
- ✓ Toshiba, however, is not delisted.
- ✓ How did Toshiba falsify its financial statements ?
- ✓ It has been reported that there were two accounting frauds. First, Toshiba manipulate its profit. It was discovered that the company's reported pretax income was JPY 224.8bn larger than actual on an aggregate basis for 2009-2015. Its net profit was revised down by JPY 155.2bn for 2009-2015.

12

Case 3: Toshiba - financial statement fraud (4)

- ✓ As mentioned earlier, Toshiba's provision for construction contract loss was not properly reported. Although the company figured out that it was not profitable when it received order for certain construction contracts in Japan, the company did not realize provision on a progressive basis.
- ✓ In its notebook PC business, Toshiba also sold key components to its Taiwanese outsourcing partners with exceptionally expensive prices, like five times more expensive than usual. The company realized higher sales revenue, resulted in higher profit.
- ✓ Toshiba was fined by Tokyo Stock Exchange and SESC on this issue.
- ✓ Secondly, Toshiba did not disclose the fact that its US subsidiary Westinghouse did realize fixed asset impairment of USD 930m and USD 390m, respectively, for 2012 and 2013, due to non-order for its nuclear power plant business. Toshiba acquired Westinghouse in 2006 for USD 2.9bn.
- ✓ Toshiba thought it was not necessary to disclose, given its Japanese accounting policy was different from that of US. Tokyo Stock Exchange advised Toshiba to disclose this fact in 2015. No fine was imposed on this.

13

Case 3: Toshiba - financial statement fraud (4)

- ✓ According to Tokyo Stock Exchange's rule, any listed company that cannot submit its annual securities report one month after the deadline may be delisted.
- ✓ Toshiba's submission deadline of its annual securities report for Mar 2015 was end of Jun 2015. The company was not able to submit until 7 Sep 2015. Literally Toshiba violated Tokyo Stock Exchange's delisting rule. However, the company was approved by Ministry of Finance to submit its annual securities report later. There is a special rule that it can be postponed if there is an unusual event. Unusual event means, disaster like earthquake, tidal wave etc.
- ✓ In fact, Tokyo Stock Exchange's delisting rule was loosened after the Olympus incident. It says any company may be delisted if it cannot meet the deadline of its annual securities report, and in addition if Tokyo Stock Exchange believes that immediate delisting is necessary to stabilize the market.
- ✓ In Toshiba's case, Tokyo Stock Exchange did not think that immediate delisting was necessary, without substantial impact to the stock market.

14

To be delisted or not

- ✓ Seibu Railway was delisted due to false reporting on its annual securities reports about shareholder distribution.
- ✓ Olympus is not delisted although it violated the delisting rule of substantial impact to the market, attributed to false reporting on its annual securities reports about hiding revaluation loss of its financial assets.
- ✓ Toshiba is not delisted although it perhaps violated the delisting rule of substantial impact to the market, attributed to false reporting on its annual securities reports about excess profit.
- ✓ What do you think of these three cases ?
- ✓ Do you think which companies should be delisted from MSE ? Or do you think MSE should not delist any of its listed companies ?

Self Regulatory Function of JSDA

April 14, 2016
(9:35-11:30)

Hajime Mitsumori
Deputy Chief Officer for Self-Regulation HQ
& Senior General Manager for
Self-regulatory Planning Division
Japan Securities Dealers Association

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Self Regulatory Function of JSDA

Contents

I. History of JSDA	2
II. Self Regulatory Organization under the Financial Instruments and Exchange Act (FIEA)	4
III. Financial Instruments and Exchange Act (FIEA) and JSDA	8
IV. Types of JSDA's Self Regulatory Rules.....	13
V. Outline of Self Regulatory Rules.....	14
VI. Implementation of Inspections and Monitoring Surveys.....	32
VII. Imposing Self Regulatory Disciplinary Action.....	34
VIII. Complaints/Consultation and Mediation of Securities Transactions, etc.	35
IX. Additional Reference: Investment Solicitation Rules for Aged Customers	38

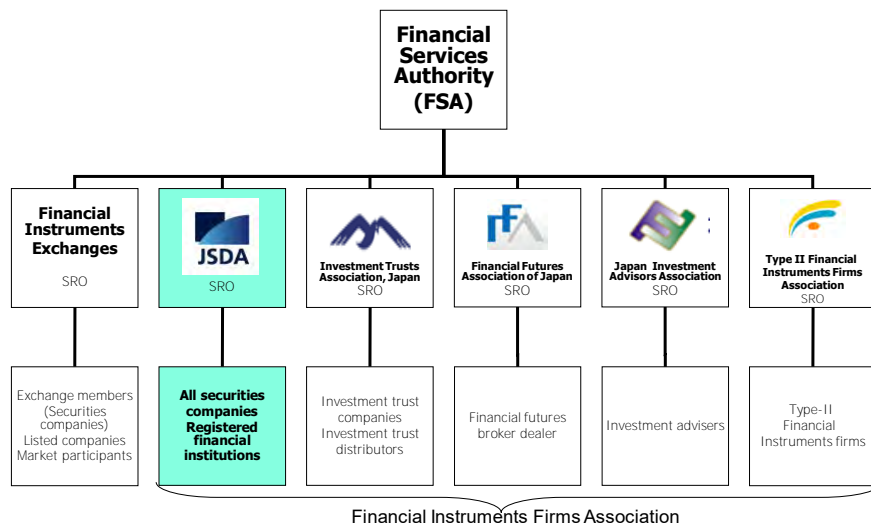
I. History of JSDA



- 1940 – 1941 33 Securities Dealers Associations were established in local districts.
- May 1949 Japan Securities Dealers Joint Association was established.
- May 1968 33 local securities dealers associations were consolidated into 10 associations.
- Jul. 1973 Japan Securities Dealers Association was newly established.
(Japan Securities Dealers Joint Association and 10 local securities dealers associations were dissolved)

- Jul. 1992 JSDA was reorganized into an authorized organization under the Securities and Exchange Law.
- Apr. 1994 Financial institutions authorized to undertake securities business joined JSDA as special members.
- Jul. 2004 JSDA adopted the new organizational structure consisting of three departments
- Sep. 2007 In accordance with the enforcement of the Financial Instruments and Exchange Act, JSDA became an authorized association under the new act.

II. Self Regulatory Organization under the Financial Instruments and Exchange Act (FIEA)



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[Scope of Self-Regulations for Each Financial Instruments Firms Association] (Outline)

- **Japan Securities Dealers Association (JSDA)**
 - ◆ Securities related Business
 - ◆ OTC Derivatives Transactions (excluding Financial Futures Transactions)
- **Investment Trust Association, Japan (JITA)**
 - ◆ Investment Management Business (Investment Trust Business, etc.)
- **Financial Futures Association of Japan (FFAJ)**
 - ◆ Financial Futures Transactions

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➤ **Japan Investment Advisers Association (JSIAA)**

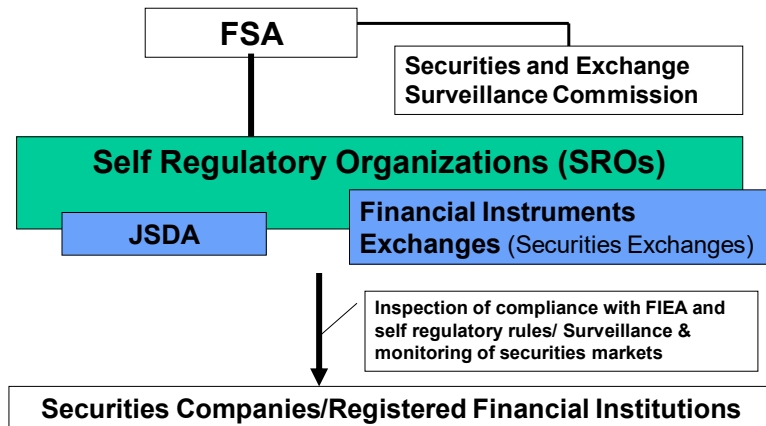
- ◆ Investment Advisory Business
- ◆ Discretionary Investment Business

➤ **Type II Financial Instruments Firms Association**

- ◆ Fund Distribution Business

※The above 5 associations hold periodically meetings to exchange views (“Meeting for Communication and Deliberation among Financial Instruments Business Associations”)

[Structure for Application of Self-Regulations to Securities Companies and Registered Financial Institutions]



➤ Authorization of Establishment (Article 67-2)

A Financial Instruments Business Operator that intends to establish an Authorized Association shall obtain authorization from the Prime Minister (FSA). JSDA has obtained such authorization.

➤ JSDA's Purpose under FIEA (Article 67)

"Aims to ensure fair and smooth sale and purchase or other transactions of Securities and Derivative Transactions, etc. and to contribute to the sound development of Financial Instruments Businesses and the protection of investors."

➤ JSDA's Member Firms (Article 68, Para.1)

Member Firms of an Authorized Association (JSDA) shall be limited to Financial Instruments Business Operators and Registered Financial Institutions (latter within the scope of conducting the business of registered financial institutions). => Prescribed by Article 5 of JSDA's Articles of Association.

➤ Eligibility for JSDA's Members (Article 68, Para.2&5)

An Authorized Association (JSDA) shall stipulate in its articles of association that any Financial Instruments Business Operator is eligible for membership as a Member Firm, provided, however, that an Authorized Association may stipulate in its articles of association that the Authorized Association may refuse the admission as a Member Firm if an applicant has been expelled from membership of, or has had qualification for trading rescinded by, an Authorized Association (JSDA) or a Financial Instruments Exchange, on account of having violated laws and regulations. => Prescribed by Article 11 and 23 of JSDA's Articles of Association.

※For Financial Instruments Business Operator that does not become member of the JSDA, so as not to be deficient in investor protection, FSA shall supervise directly the business of such Financial Instruments Business Operator, while considering JSDA's Articles of Association and rules. (FIEA, Article 56-4, Para.1)

[Self-Regulatory Operations Required of JSDA under FIEA]

Self-Regulatory Operations	Overview
① Rule-making (Article 67-8, Paragraph 1, Item 10)	• Establish and build awareness of self-regulatory rules that apply to Association Members.
② Inspection and monitoring of compliance with laws and regulations by Association Members (Article 67-8, Paragraph 1, Item 14)	• Inspect and monitor business activities and internal control system of Association Members.
③ Disciplinary actions given to Association Members (Article 68-2)	• Take actions to punish Association Members that have violated laws and self-regulatory rules, such as reprimanding members, issuing fines, suspending or placing limitations on membership, and expelling members.
④ Improvement in the qualities of officers and employees of Association Members (Article 67-8, Paragraph 1, Item 9)	• Hold qualification examinations for securities sales representatives and for employees responsible for internal administration.
⑤ Resolution of complaints from investors and mediation (Article 67-8, Paragraph 1, Item 11)	• Resolve complaints from investors concerning the operations of Association Members. Conduct mediation to resolve disputes between Association Members and investors.

[**Functions Required under FIEA**]

➤ Article 68

An Authorized Association shall stipulate the following items in its articles of association;

- ◆ It shall endeavor to prevent fraudulent acts, market manipulation or collection of unreasonable fees or expenses by Member Firms, as well as to promote the fair and equitable principles of transactions. (Para.3)
- ◆ It shall endeavor to ensure confidence of investors, by having Member Firms establish their internal rules and control systems for the purpose of observance of the laws and regulations and the Authorized Association's articles of association and other regulations. (Para.4)

=>Consequently, JSDA prescribes these items in its Articles of Association, and prepares, if necessary, the model internal rules, etc. and requests Member Firms to be equipped with such rules.

IV. Types of JSDA's Self Regulatory Rules



➤ Articles of Association

➤ Self Regulatory Rules

➤ Unified Business Practice Rules

=> Rules prescribing the unified process in the securities industry regarding rights and obligations in connection with securities transactions among Association Members.

➤ Dispute Settlement Rules

=> Rules prescribing actions and procedures for JSDA to resolve disputes between Association Member and customer or among Association Members.

➤ Association Management Rules

=> Rules prescribing management procedures of various deliberating groups within JSDA

➤ Resolutions of the Board of Governors

In order to ensure the smooth running of financial instrument markets, JSDA formulates various kinds of self regulatory rules applicable to Association Members, thereby striving to make the financial instrument business fair and efficient (number of rules: approximately 50).

Self regulatory rules are roughly classified as follows;

- Investment Solicitation, Customer Management and Internal Management
- Employees and Sales Representatives
- Advertising
- Personal Information Protection
- Stocks
- Bonds
- Foreign Securities and Transactions
- Code of Ethics

[List of Self Regulatory Rules (1)]

➤ **Relating to Investment Solicitation, Customer Management and Internal Administration, etc. by Association Member**

- 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 Change, etc. of Assessment Rates for Substitute Securities Related to Margin Transactions
- Rules Concerning Establishment of Trade Compliance Screening System for the Prevention of Unfair Trading
- Rules Concerning Proper Handling of Pre-Hearing by Association Members
- Rules Concerning Establishment of Order Management System by Association Members
- Rules Concerning Acceptance of Deposit, Etc. of Securities
- Rules Concerning Appropriate Implementation of Separate Management of Customer Assets by Regular Members
- Rules Concerning Internal Administrators, Etc. of Association Members
- Rules Concerning Application for Confirmation, Examination, Confirmation, Etc. of Incidents
- Rules Concerning Unification of Accounting for Securities Business Related
- Rules Concerning Handling of Documents Delivery, Etc. through Electromagnetic Methods
- Rules Concerning Financial Instruments Intermediary Service Providers
- Rules Concerning Protection, Etc. of Customers from Fraudulent Withdrawal Using Counterfeit or Stolen Card
- Rules Concerning Planning, Etc. of Business Continuity Management in Case of Emergency by Regular Members
- Rules Concerning Elimination of Relationship with Antisocial Forces

[List of Self Regulatory Rules (2)]

➤ Relating to Employees and Sales Representatives

- Rules Concerning Employees of Association Members
- Rules Concerning Sales and Purchase, Etc. of Specified Securities , Etc. of Listed Companies, Etc. by Employees of Association Members
- Rules Concerning Qualification and Registration, Etc. of Sales Representatives of Association Members
- Rules Concerning Qualification Examination for Sales Representatives, Etc.

➤ Relating to Advertising

- Rules Concerning Representation of Advertising, Etc. and Offer of Premiums
- Rules Concerning Handling of Analyst Reports

➤ Relating to Protection of Personal Information

- Guideline for Protection of Personal Information
- Rules Concerning Securement of Proper Handling of Personal Information by Association Members
- Rules Concerning Complaint Processing Operation Related to Handling of Personal Information

[List of Self Regulatory Rules (3)]

➤ Relating to Stocks

- Rules Concerning Over-The Counter Securities
- Rules Concerning Green Sheet Issues and Phoenix Issues
- Rules Concerning Sale and Purchase, Etc. of Listed Share Certificates, Etc. Conducted Outside of Financial Instruments Exchange Market
- Rules Concerning Transactions Subject to Closing Price and Associated Proprietary Transactions
- Rules Concerning Handling of Cumulative Stock Investment and Mini Investment in Stocks
- Rules Concerning Handling of Borrowing and Lending Transactions for Share Certificates, Etc.
- Rules Concerning Underwriting, Etc. of Securities
- Rules Concerning Distribution to Customers Related to Underwriting, Etc. of Public Offering, Etc. of Share Certificates, Etc.
- Rules Concerning Handling of Allotment of New Shares to Third Party, Etc.

[*List of Self Regulatory Rules (4)*]

➤ **Relating to Bonds**

- Rules Concerning Publication of Over-The Counter Trading Reference Prices, Etc. and Trading Prices of Bonds
- Rules Concerning Publication, Etc. of Over-The Counter Quotation of Corporate Bonds for Retail Customers
- Rules Concerning Solicitation, Etc. of Sale and Purchase, Etc. of Domestic CPs, Etc., and Private Placement Corporate Bonds
- Rules Concerning Handling of Sale and Purchase of Bonds with Options
- Rules Concerning Handling of Conditional Sale and Purchase of Bonds, Etc.
- Rules Concerning Handling of Sale and Purchase of Bonds, etc. with Delayed Settlement
- Rules Concerning Handling of Short Selling, and Borrowing and Lending Transactions of Bonds

➤ **Relating to Foreign Products and Transactions**

- Rules Concerning Foreign Securities Transactions
- Rules Concerning Foreign Securities Futures Transactions, Etc.

➤ **Relating to Securitized Products**

- Rules Concerning Distributions, Etc. of Securitized Products

➤ **Relating to Derivatives Transactions**

- Rules Concerning CFD Transactions

➤ **Relating to Code of Ethics**

- Rules Concerning Maintenance of and Compliance with Ethical Code by Association Members

[*Rules Relating to Investment Solicitation, Customer Management, Internal Administration, etc. (1)*]

➤ **Rules Concerning Solicitation for Investments and Management of Customers, Etc. by Association Members**

1. **Compliance with Principle of Suitability**

An Association Member must endeavor to solicit investments that meet customers' intentions and actual situation, by fully understanding the customers' investment experience, purpose of investment, financial condition, etc.

2. **Adequate Explanations of Material Facts**

An Association Member must endeavor to adequately explain and have the customer understand the essential matters of Sale and Purchase or Other Transactions of Securities, etc.

3. **Ensuring Principle of Self-Responsibility**

An Association Member shall, in soliciting investments, make customers understand that an investment should be made under their own judgment and responsibility.

1. - (1) Maintenance of Customer Card

Association Member shall maintain a customer card containing the items related to the customer, mainly i) occupation, ii) purpose of investment, iii) status of customer's assets, iv) experience of investments, and v) type of transaction.

1. - (2) Setup of Transaction Commencement Standards

Association Member must set up transaction commencement standards regarding margin transactions, etc., and conduct transactions with customer in compliance with such standards.

The relevant transactions are i) margin transactions, ii) transactions in share option certificates, and iii) transactions in securities-related derivatives.

1. - (3) Sale by Solicitation to Aged Customers

In the case that an Association Member sells securities, etc. to aged customers by solicitation, the Association Member must establish internal rules that include the definition of the aged customers, securities, etc. subject to sale, explanation method, and delivery method, etc. in light of its business type, size, customer distribution and customer attributes, social conditions, and other conditions, and strive to make proper investment solicitation. (For details, please see p38.)

2. - (1) Delivery of Alert Documents

When an Association Member conducts securities-related derivatives transactions, specified OTC derivatives transactions, sale of complex structured bonds and investment trusts with a customer, it must deliver an alert document to the customer in advance, and make an explanation.

In such alert document must be clearly and correctly stated such items as i) whether "no solicitation without a request" rule applies or not, ii) risks involved in a transaction, iii) contact information of a designated dispute resolving organization, etc.

3. - (1) Collection of the Confirmation Document from the Customer

An Association Member must collect a confirmation document from a customer who will purchase share option certificates, covered warrant, etc. or conduct securities-related derivatives transactions, specified OTC derivatives transactions, etc. for the first time, in order to explain and make the customer understand i) the risks and ii) fees involved in the financial instrument and its transaction, as well as to confirm that the transaction is made according to the customer's own judgment and responsibility.

4. Others

(1) Prevention of Excessive Solicitation

An Association Member must be prohibited from recommending to its customers the securities of specific issues or the option related to the sale and purchase of such securities in a concentrated manner, which represents a subjective or arbitrary supply of information.

(2) Prohibition of Solicitation of Investment in Over-The-Counter Securities

An Association Member must not solicit customers to invest in Over-The-Counter securities other than the cases under the provision of the OTC Securities Rules.

(3) Prohibition on the Acceptance of Orders for Transactions under a Fictitious Name

Where an order for sale and purchase or other transactions of securities, etc. is placed by a customer, any Association Member must not accept such an order knowing that the transaction is being made under a fictitious name.

[Rules Relating to Investment Solicitation, Customer Management, Internal Administration, etc. (2)]

➤ Rules Concerning Internal Administrators, Etc. of Association Members

- ◆ Qualification, disposition, responsibilities, etc. of officer/employee that manages legal compliance with FIEA, by Association Members
- ◆ Internal Administration Supervisor (responsible for the compliance of the company as a whole)
- ◆ Internal Administration Assistant Supervisor
- ◆ Sales Manager (leader in charge of compliance at sales outlet level)
- ◆ Internal Administrator (employee in charge of compliance at sales outlet level)

[Rules Relating to Investment Solicitation, Customer Management, Internal Administration, etc. (3)]

➤ Rules Concerning Establishment of Trade Compliance Screening System for the Prevention of Unfair Trading

- ◆ Regular Members to establish sale and purchase management system to prevent customers' unfair trading of listed stocks, etc.
- ◆ Establish internal rules
- ◆ Proper understanding of customers' trend of sale and purchase and reason for trading as well as an examination of sale and purchases
- ◆ Prepare/save internal records

[Rules Relating to Employees]

➤ Rules Concerning Employees of Association Members

(1) Hiring of Employees

- i) An Association Member must, in hiring a person as an employee, examine the career, etc. of the applicant to make sure his/her integrity and competence.
- ii) If an Association Member intends to hire a person who used to be an employee of another Association Member, or who is currently an employee of another Association Member, it must refer to the Association whether or not such person has been subject to the disciplinary action in his/her past career.
- iii) As a result of such reference, if such person reveals to have been treated as a Class-1 perpetrator of an inappropriate act, it must not hire him/her. In case of such person having been treated as a Class-2 perpetrator of an inappropriate act, an Association Member must not hire him/her during the period of five years.

(2) Prohibited Acts

An Association Member must educate and supervise its employees in order not to do prohibited acts. The main prohibited acts are listed as below;

- i) To compensate a loss which a customer incurred during securities transactions (including the act of promising the customer to compensate any loss before transaction);
- ii) To place orders for securities transaction to other Association Member (provided, however, that there are certain exceptions such as cases authorized by an Association Member to which the employee belongs);
- iii) To engage in margin transactions, securities-related derivative transactions, or specified OTC derivative transactions on his/her own account;
- iv) To solicit a customer for sale and purchase of securities, etc. by promising to share with the customer concerned profits or losses;

- v) To become the counterparty of the transaction for executing an order received from a customer for sale and purchase of securities, etc.;
- vi) To allow a customer to use the employee's own name for sale and purchase of securities, or to use the customer's name;
- vii) To lend to or borrow money or securities with a customer in connection with sale and purchase of securities;
- viii) To leak secrets that have come to his/her knowledge in the course of the performance of his/her duties;
- ix) To place an advertisement or offer premium at the employee's own discretion, without undergoing examination by the advertising examining officer.

[Rules Relating to Equities (1)]

➤ Rules Concerning Over-The-Counter Securities

- ◆ Solicitation of investments and sale and purchase of non-listed stocks
- ◆ Association Members must not solicit customers for sales of non-listed stocks, except for the cases below;
 - <Exceptional Cases>
 - ✓ Phoenix issues
 - ✓ Non-listed stocks, etc. issued by listed companies
 - ✓ Private Placement for professional investors

[Rules Relating to Equities (2)]

➤ Rules Concerning Underwriting, Etc. of Securities

- ◆ Regulations concerning underwriting of securities that Regular Members conduct in Japan
- ◆ Ensure independence of underwriting examination
- ◆ Underwriting examination items
- ◆ Verify use of funds and request issuers to disclose this information, request also issuers to disclose the dividend payout and dividend policy

[Rules Concerning Bonds]

➤ Rules Concerning Publication of Over-The-Counter Trading Reference Prices, Etc. and Trading Price of Bonds

- ◆ Over-the-Counter Transactions
- ◆ Disseminate “Reference Prices [Yield] for Transactions” (every business day)
- ◆ Publicize “Monthly Trading Volumes” , etc.
- ◆ Ensure fair trading (trading by proper price, display of price information to retail investors)

[Rules Relating to Foreign Securities Transactions]

➤ Rules Concerning Foreign Securities Transactions

- ◆ Self regulatory rules for sale and purchase, and public offerings and secondary offering of foreign securities
- ◆ Requirements for foreign securities for which investment solicitation of retail customers is possible
- ◆ Reporting requirement of the status of sale and purchase regarding foreign securities, status of underwriting, etc. to JSDA

VI. Implementation of Inspections and Monitoring Surveys



JSDA conducts inspections regarding compliance with laws and self regulatory rules in such areas of Association Members' businesses as sales activities and status of the internal administration system.

In addition to that, JSDA conducts monitoring surveys regarding the business management of Regular Members and their segregated administration of customers' assets.

(1) Overview of inspections of Association Members

The inspections are conducted by JSDA's inspectors visiting headquarters and branches of the Member Firms. The number of the inspectors and the duration differs according to the size of the firms.

	FY 2012	FY2013	FY2014
Regular Member (Securities Company)	87	87	84
In which joint inspection with Stock Exchange	(30)	(28)	(31)
In which inspection conducted solely by JSDA	(57)	(59)	(53)
Special Member (Registered Financial Inst.)	53	53	48

Notes: 1. 251 Regular Members and 213 Special Members as of October 15, 2015

2. For Regular Members which are participants of stock exchanges, the inspection shall be conducted jointly by JSDA and stock exchanges.

(2) Monitoring surveys regarding the status of management of Regular Members and their separate management of customers' assets .

◆ Business management of Regular Members

=> Grasped mainly through capital adequacy ratio

◆ Separate management of customers' assets

=> Regular Members are required to manage separately the funds and securities deposited by customers from their proprietary assets. JSDA verifies the status of this administration.

JSDA requires Regular Members to report the status of their separate management of assets every month, and monitors those reports to check the status.

VII. Imposing Self Regulatory Disciplinary Action



JSDA takes strict disciplinary action against Association Members and their officers and employees for violations of laws, self regulatory rules, etc., to prevent their recurrence and as a deterrent.

Types of disciplinary action taken by JSDA

- ◆ Over Association Members
 - ✓ Expulsion
 - ✓ Suspension or restriction of membership (for max. 6 months)
 - ✓ Levy of negligence fine (with upper limit of 500 mil. yen regarding the portion of disciplinary action)
 - ✓ Reprimand
- ◆ Over officers and employees of Association Members
 - ✓ Treatment as performer of inappropriate acts
 - ✓ Revocation of Sales Representative Qualification
 - ✓ Suspension of Sales Representative Qualification (for max. 2 years)
 - ✓ In addition to the above, as administrative sanction;
 - Revocation of Registration as Sales Representative, Suspension of Duty of Sales Representative (for max. 2 years)

VIII. Complaints/Consultation and Mediation of Securities Transactions, etc.



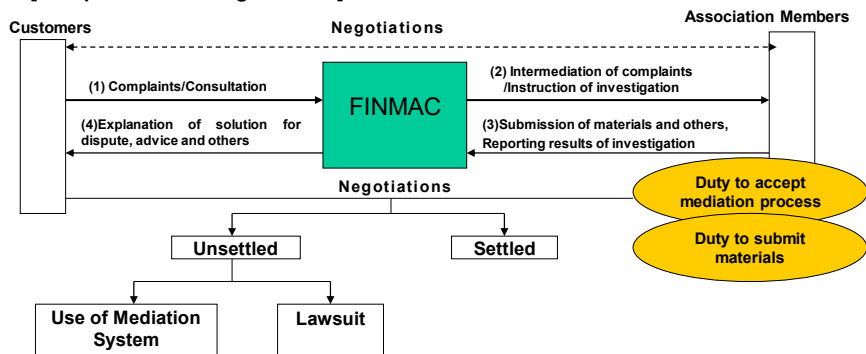
FIEA requires JSDA to handle customers' complaints and requests for consultation regarding Association Members, as well as to provide a "mediation" service to resolve disputes over securities transactions between customers and Association Members.

These tasks of handling complaints /consultations and mediation are assigned to, and conducted by the Financial Instruments Mediation Assistance Center (FINMAC), which is an NPO.

(1) Complaints and Consultation

- ✓ Consulting staff of FINMAC responds to requests for consultation and to inquiries from customers in connection with financial instruments or trading methods.
- ✓ After receiving the complaints concerning a specific securities transaction or the related solicitation or procedures, FINMAC acts as an intermediary between the counterparty Association Member and assists in the resolution of the dispute.

[Complaints Handling Process]



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(2) Mediation

- ✓ If FINMAC does not succeed in resolving a dispute through discussions and the customer is not satisfied with the result, it will introduce lawsuits, arbitration or mediation as necessary.
- ✓ In the Mediation system, a neutral and independent “Mediator (lawyer)” is appointed by FINMAC to act as an intermediary. The Customer reapplies for this service to FINMAC, which appoints a Mediator and takes the necessary procedures to resolve the dispute with the counterparty Association Member.

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[Full implementation of new solicitation rules for sales targeting aged customers in March 2014]

Background

- ✓ Situation in which there are an increasing number of aged customers.
- ✓ Increasing number of complaints from aged customers (in particular complaints from their families)

Purpose

- ✓ Perform careful solicitation of and sales targeting aged customers, thereby enabling them to fully understand and conduct transactions.
- ✓ Mitigate complaints and problems as much as possible.

Outline of Rules

- ✓ Association Members should establish internal rules prescribing the solicitation of and sales targeting aged customers, and must strive to solicit and conduct sales in compliance with these internal rules.
 - ➔ Customers over the age of 75 shall be defined as “Aged Customers.”
 - ➔ When soliciting aged customers over the age of 75 for the purchase of complex securities, prior permission from an officer of the Association Member is required.

- ➔ When soliciting customers over the age of 80 for the purchase of complex securities, the order should not be taken on the same day.
- ➔ The order should be taken on or after the following day. The person who receives such an order shall be an officer of the Association Member and not the sales staff who solicited the customer.
- ➔ After an order is received and when the order is executed, the details of the executed transaction shall be conveyed to the aged customer for confirmation.



Thank you for your attention !!

JICA: Project for Capacity Building of Capital Market in Mongolia

Outline of Qualification Examinations, Etc., Implemented by JSDA

April 14, 2016
(13:30 – 14:00)

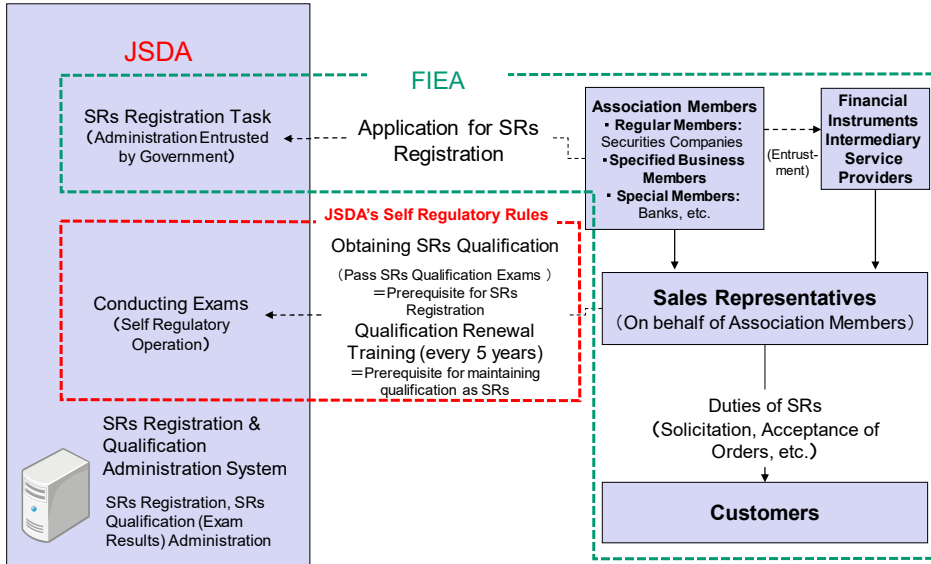
Kiyoshi Mogi
Senior General Manager
Sales Representative Examination & Registration Div.
Japan Securities Dealers Association

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Contents

I . Systems for Qualification Examination & Registration of Sales Representatives (SRs)	2
II . Types of SRs and Scopes of Qualification Exams	3
III . Scope of Internal Administrator Qualification Exam	5
IV . Conceptual Flow of Qualification Exams	6
V . Verification of Qualification Exams	7
VI . Training Course for Renewal of SRs Qualification	8
VII . Number of Registered Sales Representatives & Registrations	9
VIII . Implementation of Sales Representatives Qualification Exam (FY 2015)	10
IX . Implementation of Internal Administrators Qualification Exam (FY 2015)	11
X . Implementation of Training Course for Renewal of Sales Representative Qualification (FY2015)	12

I. Systems for Qualification Examination & Registration of Sales Representatives (SRs)



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II. Types of SRs and Scopes of Qualification Exams



1. Regular Members (Securities Companies)

Type of SRs	Class-1 SR: For Entire Range of Duties of SR Class-2 SR: Mainly for Cash Mkt. Transaction	
Type of Exams	Class-1 SR Qualification Exam (Japanese/English)	Class-2 SR Qualification Exam (Japanese/English)
Scope of Questions	Business Knowledge (Margin Transactions, Futures, Options, Specific OTC Derivatives Transactions, Complex Investment Trusts & Structured Bonds similar to OTC Derivatives Transactions)	
	Business Knowledge (Equity, Bonds, Investment Trusts)	
	Knowledge of Laws and Regulations (Laws such as FIEA, Rules of JSDA and TSE)	
	Basic Knowledge (Basic Knowledge about Securities Markets, Joint-Stock Company Act, Economy/Finance/Public Finance, Financial Statements/Corporate Analysis, Securities Taxation, Sales Activities)	
No. of Questions	100	70
Timeframe (min)	160	120
Passing mark	308/440	210/300

(Note) Until recently, those who have not passed the Class-2 Qualification Exam for Sales Representative were not eligible to take the Class-1 Qualification Exam. However, such a requirement was lifted in January 2012.

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II. Types of SRs and Scopes of Qualification Exams (Continued)



2.Special Members (Banks, etc.)

Type of SRs	Special Member Class-1 SR: For entire range of duties of SR regarding business of Registered Financial Institution		Special Member Class-2 SR: Mainly for Bonds and Investment Trust
Type of Exams	S.M.Class-1 SR Qualification Exam (Japanese)		S.M.Class-2 SR Qualification Exam (Japanese)
Scope of Questions	Business Knowledge (Bond Futures, Bond Options, Specific OTC Derivatives Transactions, Complex Investment Trusts & Structured Bonds similar to OTC Derivatives Transactions)		
	Business Knowledge (Bonds, CP, Investment Trusts)		
	Knowledge of Laws and Regulations (Such as FIEA, Rules of JSDA)		
	Basic Knowledge (Basic Knowledge about Securities Markets, Sales Activities)		
No. of Questions	45	26	
Timeframe (min)	100	70	
Passing mark	230/325	140/200	

(Notes) Until recently, those who have not passed the S.M.Class-2 Qualification Exam for Sales Representative were not eligible to take the S.M.Class-1 Qualification Exam. However, such a requirement was lifted in January 2012.

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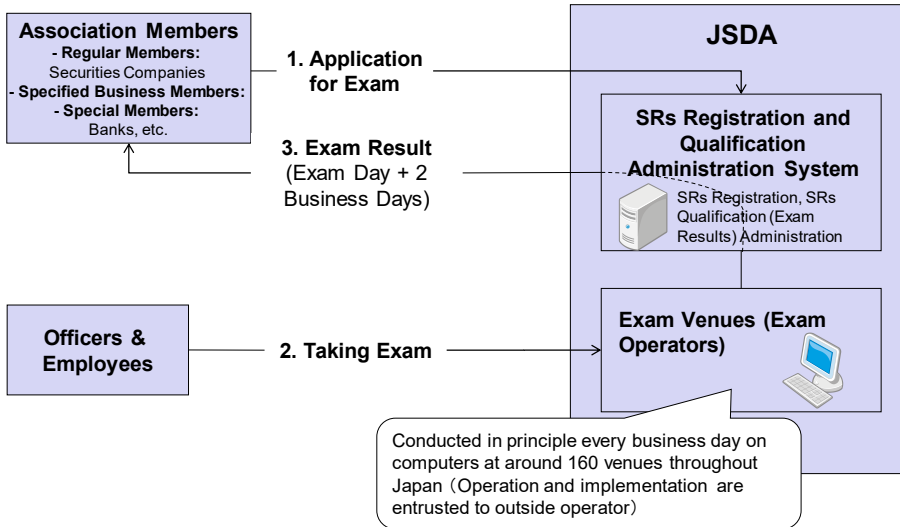
III. Scope of Internal Administrator Qualification Exam



Type of Qualification	1) Internal Administrator 2) Special Member Internal Administrator	Special Member Internal Administrator
Type of Exams	Internal Administrator Qualification Exam (Japanese, English)	Special Member Internal Administrator Qualification Exam (Japanese)
Scope of Questions	Basic Knowledge for Internal Administration and Legal Compliance FIEA and Related Laws and Regulations JSDA's Articles of Association and Rules	
	Articles of Association & Rules of Exchanges	
	Firm's Internal Administrative Rules, etc.	
No. of Questions	50	30
Timeframe (min)	90	60
Passing Mark	350/500	210/300
Eligibility for Exam	1. Officers of both Regulars Members and Special Members; or 2. Persons for whom a Regular Member and Special Member finds it necessary to have them take the examination, and who are qualified as Class-1 SR	1. Officers of Special Members; or 2. Persons for whom a Special Member finds it necessary to have them take the examination, and who are qualified as Special Member's Class-1 SR

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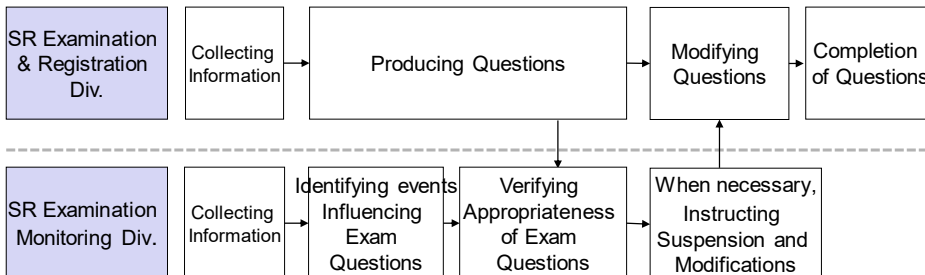
IV. Conceptual Flow of Qualification Exams



V. Verification of Qualification Exam



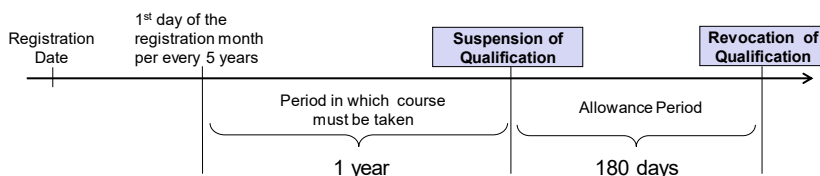
Checks and balances provided by the "Sales Representative Examination & Registration Div." that produces exam questions and the "Sales Representative Examination Monitoring Div." that checks them ensures the appropriateness of questions adopted in the SR Qualification Exam, etc.



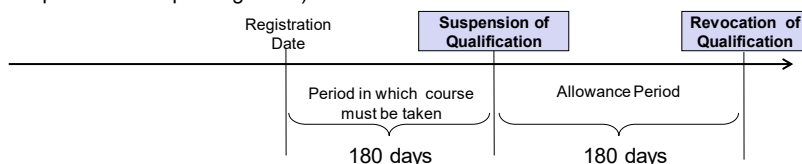
VI. Training Course for Renewal of SRs Qualification



1. Registered SRs



2. Those who will be newly registered as SRs (when more than 2 years have passed since passing exam)



(Notes)

1. Previously, JSDA provided three types of training course for renewal of SRs types courses, namely training courses for Regular Members, Special Members and Special Member Class-4 SRs respectively. Those courses were integrated into a single course in January 2012.

2. This is conducted on computers similar to the qualification exam for SRs (Timeframe for taking course is 2 hours, followed by a test checking the degree of understanding. Those who get over 70% pass.)

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VII. Number of Registered Sales Representatives & Registrations



(Unit: firm, person)

	Regular Members	Specified Business Members	Special Members	Total
Number of Firms (End of March 2015)	256	3	212	471
Number of SRs (End of March 2015) (Note)	78,387	70	443,347	521,804
Number of New Registrations (During FY2015) (Note)	10,488	74	34,767	45,329

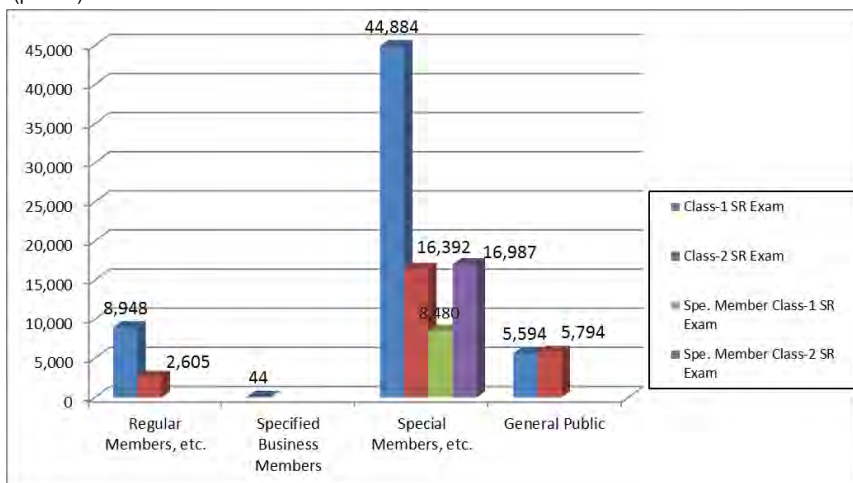
(Note) Numbers of SRs and new registrations include their respective financial instruments intermediary service providers.

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VIII. Implementation of Sales Representative Qualification Exam (for FY 2015)



(person)



(Notes)

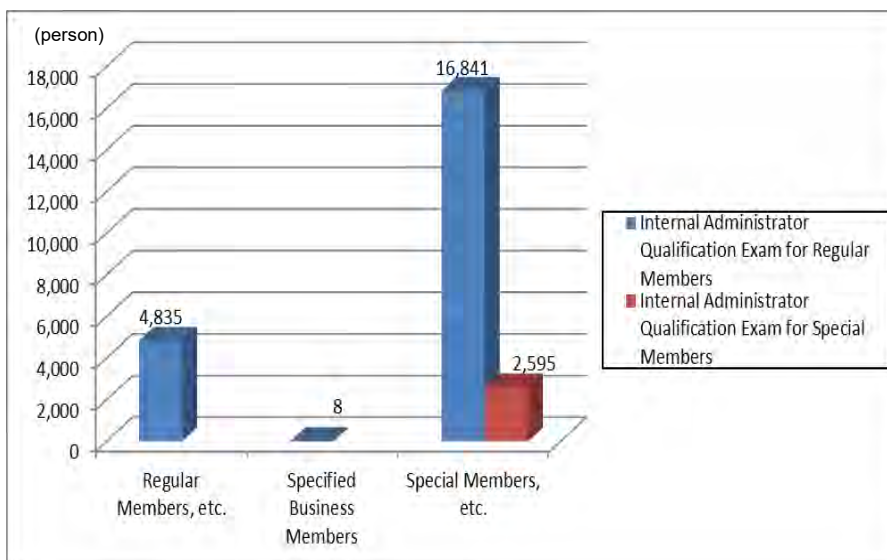
1. The numbers of Regular Members, etc. and Special Members, etc. include financial instruments intermediary service providers with which those member firms are contracted respectively.
2. General public (namely those who are not officers nor employees) became able to take Class-2 SR Exam (since 2004) and Class-1 SR Exam (since 2012).

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IX. Implementation of Internal Administrators Qualification Exams (for FY 2015)



(person)

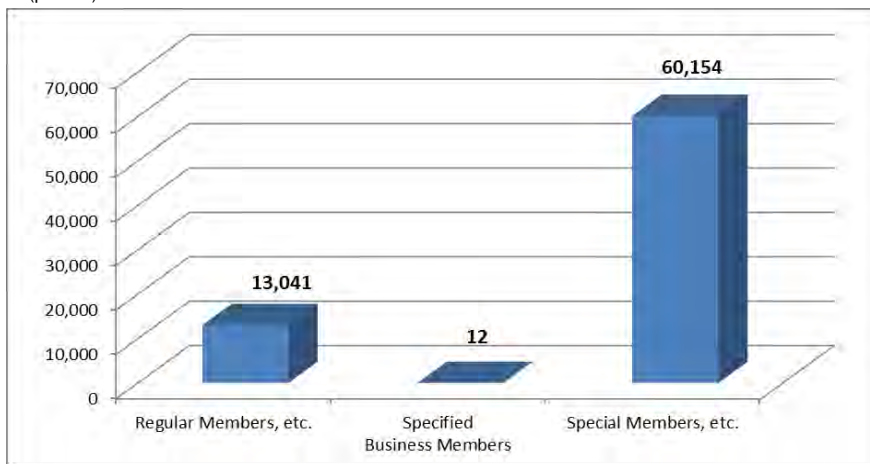


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X. Implementation of Training Course for Renewal of Sales Representative Qualification (FY2015)



(person)



(Notes)

1. The numbers of Regular Members, etc. and Special Members, etc. include financial instruments intermediary service providers with which those member firms are contracted respectively.
2. Previously, JSDA provided three types of training course for renewal of SRs qualification, namely training courses for Regular Member, Special Member and Special Member Class-4 SRs respectively. Those courses were integrated into a single course in January 2012. (Consequently, there is currently only one course available.)

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Thank you for your attention

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*JICA: Project for Capacity Building of
Capital Market in Mongolia*

Case Studies:

Discoveries by Recent Member Firm Inspections

April 14, 2016
(14:45 – 15:45)

Osamu Sasaki

Deputy General Manager

Inspection Division 1, Inspection HQ

Japan Securities Dealers Association

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1. Basic Approach to Inspection



- While fully respecting member firms' own self-regulatory endeavors, JSDA's primary objective in any inspection is to check out member firms' internal administration systems and compliance with their legal and regulatory obligations to ensure that investors are fully protected at all times.
- Inspection methods, key points, and the areas covered are in all cases tailored to match the particular business types, customer bases, and risk profiles of individual member firms, thereby ensuring that inspections are carried out in a way both thoroughly efficient and highly effective.

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2. Key Inspection Points (1)



- Increases in the tax-free investment coverage of the Nippon (Japan) Individual Savings Account (NISA) are expected to encourage its more widespread adoption as an investment vehicle, and given the proposed introduction of a Junior NISA in April 2016, plus the need for fuller, more rigorous internal administration systems, our key inspection points in FY 2016 are as summarized in the following slides.
- Moreover, inspections will not be confined to investigations into the breaches of individual laws or any of the many regulatory requirements, but will also look to ascertain such underlying internal administration problems as may have given rise to such breaches in the first place.

2. Key Inspection Points (2)



[Common to Regular Members and Special Members]

1) Inspect internal administration systems (including risk management systems)

- Check that Association Members' internal administration systems are both robust and systematically integrated.

2) Inspect systems for investment solicitation and sales of financial products

- For investor protection purposes, check the compliance with the principle of suitability, status of prior verification of suitability to rationale as well as whether proper explanation is made in the solicitation of financial products according to their features and risks and whether the systems for implementing these points are well established, particularly in the case of elderly customers and new account holders.
- The following points shall be checked for investment trust business;
 - (1) Administration system for preventing transactions, etc. that slight customer's investment purpose and intension
 - (2) Status of explanation upon solicitation (particularly when soliciting a customer to make switching)
 - (3) Status of aftercare in the wake of sudden market fluctuation, etc. that may have seriously affected the basic prices
 - (4) Status of notification regarding total returns

2. Key Inspection Points (3)



2) Inspect systems for investment solicitation and sales of financial products (cont.)

- Check the system and current status of compliance with the solicitation commencement criteria regarding structured bonds, investment trusts, and leveraged investment trusts that may be equivalent in complexity to OTC derivatives.
 - Check arrangements for the introduction, sale, and follow-up of securitized products targeted for individual investors by means of private placement, etc.
 - Regarding NISAs and Junior NISAs, check the following points in view of their system' design and purpose that intend to support stable household asset formation based on the tax benefits;
 - (1) Administration systems for facilitating account opening, transaction, etc. designed specifically to accommodate customers' investment purpose and intention
 - (2) Explanations when soliciting or accepting new account opening
 - (3) Explanations pertaining to individual financial products
- Checks must also be made to ensure that Junior NISAs are not used as accounts under fictitious name by persons with parental authority, etc.

2. Key Inspection Points (4)



[Specific to Regular Members]

- 1) Inspect the segregated management of customer assets
 - Check that customer assets are duly segregated and securely managed.
- 2) Inspect financial adequacy
 - Check the financial adequacy of Regular Members whose capital adequacy ratios may have declined.
- 3) Inspect establishment of the trading monitoring system, etc.
 - From the viewpoint of preventing unfair trading such as insider trading, check trading monitoring system, proper arrangement of insider registration cards and administration system of corporate information.
- 4) Inspect disconnection with anti-social forces
 - Check arrangements for inquiring information and administration system regarding anti-social forces.
- 5) Inspect systems for coping with system failure
 - Check systems for coping with system failure in Regular Members conducting internet trading.
- 6) Inspect administration system for personal information
 - Check the administration of personal information (including "specified personal information" that has recently been prescribed by the law).

3. Points Raised Following Recent Inspections



Points raised in recent JSDA's inspections

1. Inadequate compliance with the suitability principle
2. Inadequate administration system regarding switching transactions of investment trusts
3. Inappropriate posting of internal administrators
4. Sales activity by sales representatives during the period of suspension of the validity of their qualification

3-1. Inadequate Compliance with Suitability Principle (1)



Case 1

The company in question has been dealing with the secondary offering of South African rand denominated discount bonds, but within six months from the start of the sale, around half their customers had sold at a loss. Most cited reasons such as “too long to maturity” and “wanting to sell such low-interest foreign bonds and revert to investment trusts with monthly dividends.” It was recognized that the company had probably not adequately explained upon sale of the bonds their detailed features to investors.

The company's internal administration division had noticed a growing demand for early sales of the said bonds, and verified application forms made by sales persons at the point of sale from the viewpoints of whether the sales were made by customers' intention, and confirmed that the sales were indeed done by customers' will. However, it was recognized that there were cases where the appropriateness at the time of sales solicitations was not well verified by failing to recognize that their sales teams' initial sales may not themselves have been in keeping with their customers' investment objectives and that the bonds' characteristics may not have been fully explained.

Moreover, whereas “internal administration supervisor (who is responsible for overall internal administration)” issued strong instructions to sales offices to exercise restraint in face of early selling, he at no point suggested either to the internal administration division or to local sales offices that there might actually have been a problem with the initial solicitation.

3-1. Inadequate Compliance with Suitability Principle (2)



[Internal Administration Systems]

- (1) Limit in principle marketable financial products per customer by means of product-specific compliance matrix tables.
- (2) Provide upon solicitation adequate explanation about the features, etc. of financial products, and endeavor to conduct investment solicitation that is matching with customer's intention, knowledge, experience, nature of funds, etc.
- (3) Collect upon sale "Confirmation for Applying for Foreign Currency Bond" from customers.
- (4) Require Sale Manager's approval system for transactions with customers over 80s. Require sales persons to make applications detailing a customer's attributes, custody assets, etc., and describe therein customer's degree of understanding of the risk involved in financial products other than equities.
- (5) Prohibit to solicit an early sale of foreign bonds within 360 days of purchase.
- (6) In the case of early sale based on a customer order, require sales persons to prepare a "request for early sale" and obtain the sales manager's approval before execution.
- (7) Use this "request for early sale" for company's head office internal administration division to monitor the situation.

3-1. Inadequate Compliance with Suitability Principle (3)



[Cause of Occurrence, etc.]

- (1) 7-year discount bonds were sold to customers who had preferred to invest in stocks, etc.
- (2) Some sales persons solicited the selling of bonds to bondholders but falsely represented these as bondholder requests, thereby readily obtaining their sales manager's approval.
- (3) Seeing the rapid rise in loss-cutting early sales, the head office internal administration department opted not to recognize the 1-month commissions arising from the customers for whom such sales were conducted as a performance of the sales persons. The sales office's priority, however, was to achieve the targeted sales of other specific financial products, and therefore made their sales persons promote solicitation for switching to such other financial products by doing the loss-cutting early sales.
- (4) The head office internal administration department realized increase in orders for early sales being a problem but relied solely on sale applications prepared by sales persons upon sale as evidence of their customers' own judgment. And although it should have been evident from the content of such "early sale applications" that the solicitation to sell may not have been entirely in line with the prescribed objects of marketing and the required product explanations may have been inadequate, they failed to see a problem and took no steps to investigate the associated marketing procedures.

3-1. Inadequate Compliance with Suitability Principle (4)



For reference

Financial Instruments and Exchange Act

Article 40 (Principle of Suitability)

A Financial Instruments Business Operator, etc. shall engage in his/her business in such a manner that the state of the operation of the business does not fall under any of the cases listed in the following items:

- (i) where the Financial Instruments Business Operator, etc. conducts solicitation with regard to an Act of Financial Instruments Transaction in a manner that is found to be inappropriate in light of the customer's knowledge, experience, the status of property or the purpose of concluding a Contract for Financial Instruments Transaction, which results in or is likely to result in insufficient protection of investors;

3-2. Inadequate Administration System Regarding Switching Transactions of Investment Trusts (1)



Case 2

Despite a rapid increase in short-term switching between investment trusts, Company A's heads of divisions and branch offices made no attempt to ascertain the facts and readily approved the solicitation of short-term switching. Given additional factors such as the audit department's inadequate after-sale monitoring, the company was deemed in its excessive pursuit of sales to have failed to establish adequate systems for the administration of investment trust solicitation and sales.

Under these backdrops, circular-type transactions were detected such as the sale of Investment Trust A and its replacement by Investment Trust B that were simply reversed in the near term. Contradictory transactions were also found as sales persons have enticed different buyers with contradictory market views on one and the same day.

3-2. Inadequate Administration System Regarding Switching Transactions of Investment Trusts (2)



[Internal Administration System]

- (1) Regardless of whether a customer is solicited to do so or not, if he/she sells his/her investment trust then looks to buy into another within 30 days, the sales person must first obtain the sales manager's approval based on the preparation of a "confirmation document for investment trust switching" (stating "reason for (purpose of) switching," "holding profit/loss on trust being sold," "cost of switching," etc.).
- (2) The sales manager shall determine to approve the transaction or not, only after verifying appropriateness of transaction based on customer's attributes, transaction background, etc.
- (3) After getting the sales manager's approval, a sales person must use a prospectus and other sales materials to explain matters of importance to the customer as provided for in the "confirmation document," and, in the case of customers "over 70" or "switching within 2 months of purchase and expected to lose 10% or more of their original investment," collect a signed/sealed "confirmation document".
- (4) On completion of the switching transaction, the sales person must report the transaction to the sales manager with the "confirmation document" filled with notes indicating how the transaction was explained and how the customer reacted.
- (5) Following a switching transaction, the internal administrator shall make initial checks to confirm details such as a customer's reason for switching, age, profit/loss on the investment trust sold, the length of holding period, etc.
- (6) Investment trust switching is monitored by the company's audit division based on daily checks on the situation with regard to early sales and switching transactions, and monthly checks for the scrutinizing of factors such as switching transactions, early sales, trading frequency, profit/loss, and, in the event a particular customer stands out, it warns the managers and sales persons involved to interview the customer in question and modify their transaction as necessary.

3-2. Inadequate Administration System Regarding Switching Transactions of Investment Trusts (3)



[Cause of Occurrence, etc.]

- (1) While realizing that "investment trust switching was common, often based on inappropriate solicitations designed to boost commissions," some sales persons nevertheless made solicitations in excessive manner to secure their retail division's sales revenues.
- (2) In the belief that "if even a small profit can be realized, then the holding period matters little" and "if short-term loss cutting is the key to minimizing a customer's loss, the decision is equally obvious", head office sales managers, among others, approved switching transactions without further verification of how the solicitation was actually made.
- (3) The sales manager of Branch N, who had the best sales record in that branch, took the lead on the sales side, even going so far as to authorize his own solicitations for switching transaction.
- (4) The internal administration supervisor (who is general manager of the audit division) saw no good reason either to issue warnings regarding investment trust switching or to investigate circular-type and contradictory transactions.
- (5) Advised by the internal administration supervisor that short-term investment trust switching was on the increase, the president and representative director of the member firm simply suggested that "the situation might be improved by changing to an operating revenue structure that is more oriented towards the accumulation of entrusted assets", but as the retail division was under the control of the general manager of head office sales division, nothing was in practice done to rectify the situation.

3-3. Inappropriate Posting of Internal Administrators (1)



Case 3

Institution A set up a number of small sales outlets (hereafter, “small outlets”), which it designated as business units, and in charge of each of which it placed an internal administrator whose job was to conduct internal administration for the business of registered financial institutions.

However, Institution A also expected the internal administrators of such small outlets to make sales and it was subsequently found during the JSDA’s inspection period that said internal administrators were actually responsible for the sale of more than 200 investment trusts and other products.

3-3. Inappropriate Posting of Internal Administrators (2)



[Cause of Occurrence, etc.]

In an “incident report” submitted to the Financial Services Agency in Year X, Institution A included voluntary reference to the effect that it was planning to install non-sales internal administrators in its branch offices, and from Month Z of Year Y onwards it adopted just such a structure. However, up until the JSDA’s inspection it did not reserve the same treatment for its small outlets as it did for its branch offices.

Those with decision-making power for the placement of internal administrators in small outlets, namely the head of sales department at its head office, internal administration supervisor, and assistant internal administration supervisor, were aware that the internal administrators in small outlets were also responsible for sales and knew that this was not a desirable administration structure.

However, given the shortage of necessary personnel, they simply installed internal administrators in their small outlets on the understanding that they would also be responsible for sales.

3-4. Sales Activity by Sales Representatives During the Period of Suspension of the Validity of Qualification



Case 4

Company A had two sales representatives in need of qualification renewal training, but failed to ensure their attendance at training seminars (*) within the prescribed period.

Moreover, although the representatives' sales qualifications were withdrawn with effect from the day after the end of their prescribed renewal training period, Company A allowed them to continue their sales activity (opening new accounts, accepting margin transactions and stock index futures transactions) right up until that very last day.

(*) Registered sales representatives are required to attend training courses in order to make the best of their capabilities. Such courses should in principle be attended every 5 years from registration onwards.

Each time a sales representative is re-registered, they must attend the required course within 180 days.

Failure to complete a course within the prescribed period results in the suspension or withdrawal of a representative's qualification.

[Cause of Occurrence, etc.]

Company A's general manager in operation department was responsible for the registration of sales representatives, but due to his failure to fully understand the JSDA's rules in this regard, he neglected to keep up to date with when individual employees would need to start their qualification renewal training or, indeed, with what the renewal status actually was.

*JICA: Project for Capacity Building of
Capital Market in Mongolia*

Disciplinary Actions of JSDA

April 14, 2016
(16:00-17:00)

Masami Kinoshita
Deputy General Manager
Disciplinary Examination Division
Japan Securities Dealers Association

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Table of Contents



I . Types of Disciplinary Actions	2
II -1. Legal Basis for Disciplinary Actions Against Association Members	3
II -2. JSDA Rules for Disciplinary Actions Against Association Members	5
II -3. JSDA Disciplinary Actions Against Association Members	7
II -4. Statistical Data of Disciplinary Actions Taken Against Association Members	8
II -5. Procedure for Disciplinary Actions Taken Against Association Members	9
III-1. Disciplinary Actions Against Sales Representatives under FIEA	10
III-2. Process of Disciplinary Action Etc. Against Officers and Employees of Association Members	11
III-3. Effect of Disciplinary Action Etc. Against Officers and Employees of Association Members	12
III-4. JSDA Rules for Disciplinary Action Etc. Against Officers and Employees of Association Members ..	13
III-5. Statistical Data of Disciplinary Actions Against Officers and Employees of Association Members ...	15
IV. Case Studies: Breach of Laws and Regulations by Officer and Employees of Association Members	17
V-1. Internal Administration System, Etc. of Association Members	23
V-2. Duties of Sales Managers and Internal Administrators	24
V-3. Prohibition of Posting Delinquent Sales Managers and Internal Administrators	25

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I . Types of Disciplinary Actions



Target of Disciplinary Action	Against Association Member (Against Company)	Regarding Sales Representative*
Type of Disciplinary Action	<ul style="list-style-type: none"> ➤ Revoke Registration ➤ Business Suspension Order (up to 6 months) ➤ Business Improvement Order 	<ul style="list-style-type: none"> ➤ Revoke SR Registration ➤ Suspend duties as SR (up to 2 years)
Applicable Law	<ul style="list-style-type: none"> ➤ Article 51, and 52 of the FIEA 	<ul style="list-style-type: none"> ➤ Article 64-5 of the FIEA

* Because the application for registration of the Sales Representative is made by the Association Member, any related disciplinary action regarding the said Sales Representative is taken against the said Association Member.

II - 1. Legal Basis for Disciplinary Actions Against Association Members (i)



【Financial Instruments and Exchange Act】

(Order to Improve Business Operation to a Financial Instruments Business Operator)

Article 51 When the Prime Minister finds it necessary and appropriate for the public interest or protection of investors, with regard to a Financial Instruments Business Operator's business operation or the status of its property, he/she may order said Financial Instruments Business Operator to change the methods of business or take other necessary measures for improving its business operation or the status of its property, within the limit necessary.

(Disposition Rendered to a Financial Instruments Business Operator for the Purpose of Supervision)

Article 52 In cases where a Financial Instruments Business Operator falls under any of the following items, the Prime Minister may rescind its registration under Article 29, rescind its authorization under Article 30(1), or order suspension of all or part of its business by specifying a period not exceeding six months:

II - 1. Legal Basis for Disciplinary Actions Against Association Members (ii)



Article 68-2(4)

(Dispositions, etc. Rendered to Member Firms)

An Authorized Association shall stipulate in its articles of incorporation that, when a Member Firm or a Financial Instruments Intermediary Service Provider whose Entrusting Financial Instruments Business Operators, etc. is the Member Firm has violated laws and regulations, dispositions rendered by government agencies based on laws and regulations, or the Authorized Association's articles of incorporation or other rules, or has violated the fair and equitable principles of transactions, the Authorized Association shall impose a fine for default, order said Member Firm to suspend or limit the rights of a Member Firm under the articles of incorporation or shall expel said Member Firm from the Authorized Association.

II - 2. JSDA Rules for Disciplinary Actions Against Association Members (i)



【JSDA's Articles of Association (Excerpt)】

Article 28 (Disciplinary Actions, Etc. against Regular Members)

Paragraph 1 When a Regular Member is deemed to fall under any of the Items below, the Association may take a disciplinary action against the Regular Member by a resolution of the Board of Governors:

- (1) It joins the Association by dishonest means;
- (2) It becomes insolvent and such insolvency is not readily-recoverable;
- (3) It violates laws and regulations, a disciplinary action taken by an administrative government office pursuant to laws and regulations, or the Articles of Association and other rules, a resolution at a General Assembly or by the Board of Governors or a disciplinary action thereunder;
- (4) It commits an act in violation of the good faith principles of transactions;
- (5) It fails to make the payment of money which should be paid to the Association as prescribed by the Association;
- (6) It fails to make the notification or report prescribed in Article 18 hereof, or it presents a false notification or report;

II-2. JSDA Rules for Disciplinary Actions Against Association Members (ii)



- (7) It fails to submit the reports or data prescribed in Article 19 hereof, or it submits false reports or data;
- (8) It refuses, disturbs or evades the inspection prescribed in Article 20 hereof;
- (9) It uses the Association name and the names of boards and committees established under the Association without an approval in violation of Article 21 hereof;
- (10) It violates the instructions prescribed in Article 22, Paragraph 4 hereof;
- (11) A Financial Instruments Intermediary Service Provider for which the Regular Member is an Entrusting Financial Instruments Business Operator, etc. commits an act that falls under Items 3 or 4 of this Paragraph; or
- (12) The fact that any major shareholder (which means a major shareholder prescribed in Article 29-4, Paragraph 2 of the FIEA), officer, or employee is an antisocial force may ruin the credibility of the Financial Instruments Business.

II - 3. JSDA Disciplinary Actions Against Association Members



1. Disciplinary Actions

- Expulsion
- Suspension or Limitation of Regular Membership for 6 Months or Less
- Imposition of Penalty Money up to 500 Million Yen*
- Reprimand

* If an improper gain is generated, the amount of the improper gain may be added to the maximum amount of penalty money. (Amount exceeding 500 Million Yen may be conceived.)

2. Admonition, Warning

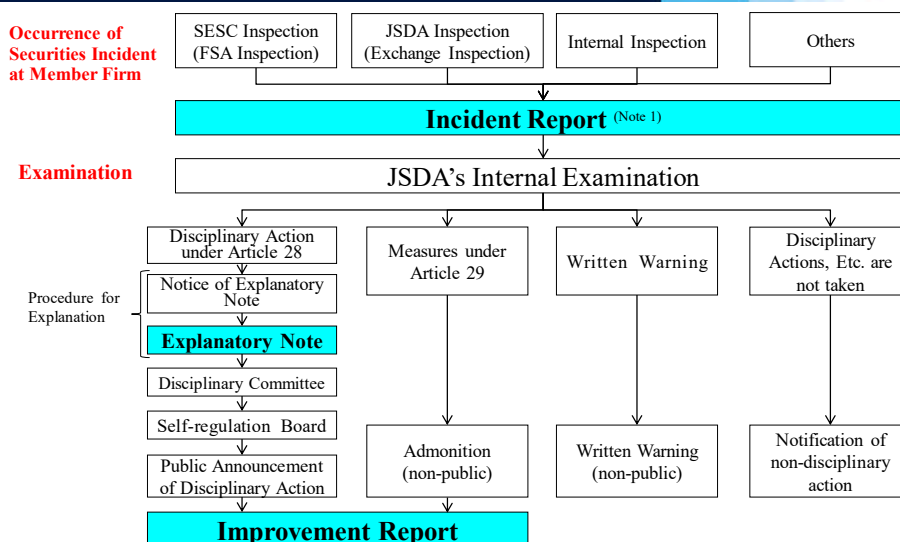
II - 4. Statistical Data of Disciplinary Actions Taken Against Association Members



FY	2010	2011	2012	2013	2014	2015*
Expulsions	0	1	0	1	1	0
Suspension or Limitation of Regular Membership	0	1	0	0	0	0
Imposition of Penalty Money	1	3	4	1	2	0
Reprimands	4	2	4	1	0	1
Total	5	7	8	3	3	1

* Figures for FY2015 are those recorded from the beginning of April to the end of November, 2015.

II - 5. Procedure for Disciplinary Actions Taken Against Association Members



Notes 1. When an Association Member becomes aware of the fact that any act in violation of the laws and rules which should be observed by an Association Member is conducted, it must immediately report it to JSDA.
 2. Shaded columns show documents to be submitted to JSDA by an Association Member.

III- 1. Disciplinary Actions Against Sales Representatives under FIEA



【Financial Instruments and Exchange Act】

(Disposition Rendered to a Sales Representative for Purpose of Supervision)

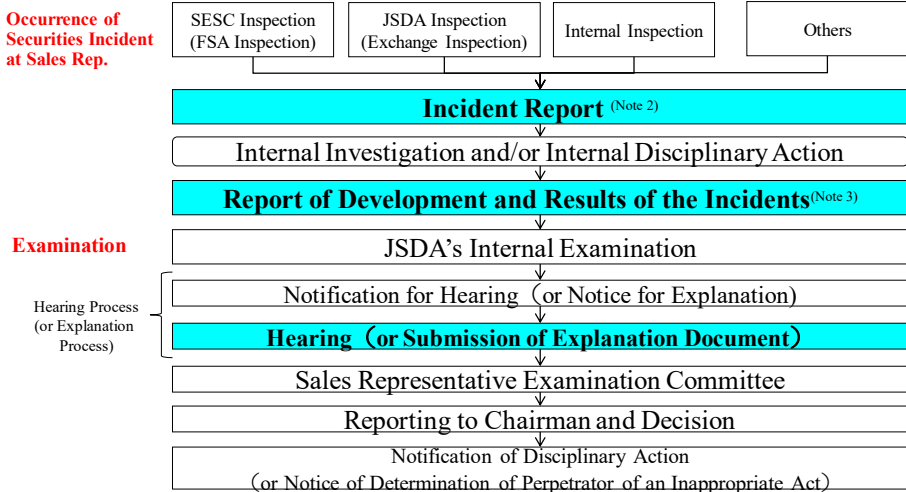
Article 64-5 In cases where a registered Sales Representative falls under any of the following items, the Prime Minister may rescind his/her registration or order suspension of his/her business by specifying a period not exceeding two years:

- (i) when the person has come to fall under any of Article 29-4(1)(ii)(a) to (g), or is found to have already fallen under any of the items of Article 64-2(1) at the time of registration;
- (ii) when the person has violated laws and regulations concerning business to conduct acts listed in the items of Article 64(1) among Financial Instruments Business (Registered Financial Institution Business for Registered Financial Institutions) and its accompanying business, or the person is found to have conducted extremely inappropriate acts concerning other Duties of Sales Representatives; or
- (iii) when the person has had his/her registration rescinded under the provisions of item (iii) of the following Article during the last five years, and it is found that the acts he/she conducted during the period while the registration was in effect (limited to acts during said last five years) fell under the preceding item;

(Delegation of Registration Work)

Article 64-7 The Prime Minister may have an Association (meaning Authorized Financial Instruments Firms Associations or Public Interest Corporation-Type Financial Instruments Firms Associations prescribed in Article 78(2); hereinafter the same shall apply in this Section) conduct work concerning registration prescribed in Article 64, Article 64-2, and the preceding three Articles (hereinafter referred to as “Registration Work” in this Article and Article 64-9) that pertains to Sales Representatives of a Financial Instruments Business Operator, etc. belonging to said Association pursuant to the provisions of a Cabinet Office Ordinance.

III- 2. Process of Disciplinary Action Etc. Against Officers and Employees of Association Members



- Notes 1. This flow is for the cases in which disciplinary actions are taken, among the cases when incident reports are submitted.
 2. When an Association Member identifies the violation of laws and rules by its employee, it must immediately report it to JSDA.
 3. Association Member must implement appropriate disciplinary action and report its details to JSDA.
 4. In parentheses indicates the case when JSDA prepares to treat Employees, etc. of Association Member as perpetrators of an inappropriate act.

III- 3. Effect of Disciplinary Action Etc. Against Officers and Employees of Association Members



		Sales Representative Registrations	Sales Representative Qualifications	Business of Sales Representatives
Administrative Disciplinary Action	Revocation of Registration	Revoked	—	Prohibited (Re-registration not allowed for 5Y)
	Suspension of SR duties	—	—	Prohibited (Not more than 2Y)
Self-Regulatory Disciplinary Action	Treated as Perpetrator of an Inappropriate Act	Class-1	—	Revoked (Retrial for exam not allowed permanently)
		Class-2	—	Revoked (Retrial for exam not allowed for 5Y)
	Prohibition of SR duties	—	—	Prohibited (Not more than 5Y)

【Other Effects】

Any Association Member who intends to hire a person as its officer or employee is required to refer in advance to the SRs Registration and Qualification Administration System which conserves disciplinary action history of the said person if he or she used to work in other member firm(s) and received any disciplinary action.

- i) If a person received an administrative disciplinary action and self-regulatory disciplinary action (excluding Perpetrator of an Inappropriate Act);
 - Although there is no restriction for Association Members on hiring the said person who received any administrative disciplinary action and self-regulatory disciplinary action, the said disciplinary action history shall be displayed for 5 years from the date of the disciplinary action.
- ii) If a person was treated as Perpetrator of an Inappropriate Act;
 - In case of Class 1 Perpetrator of an Inappropriate Act, an Association Member is prohibited from hiring the said person permanently.
 - In case of Class 2 Perpetrator of an Inappropriate Act, an Association Member is prohibited from hiring the said person for 5 years from the date of the disciplinary action. The said person loses his/her eligibility to take the Sales Representative Qualification Exams for 5 years.

III- 4. JSDA Rules for Disciplinary Action Etc. Against Officers and Employees of Association Members (i)



【Rules Concerning Employees of Association Members】

(Prohibition of Hiring)

Article 4 An Association Member must not hire any person employed by other Association Member as an employee of its own; provided, however, that this provision shall not apply to the case where an Association Member hires a person employed by another Association Member in the form of seconded worker or the case where an Association Member is a parent financial institution etc. of the other Association Member that is prescribed in Article 36, Paragraph 4 of the FIEA or a subsidiary financial institution, etc. of other Association Member that is prescribed in Paragraph 5 of the same Article (hereinafter referred to as the “Parent/Subsidiary Financial Institution, etc.”), or if the other Association Member is a Parent/Subsidiary Financial Institution, etc. of the Association Member and the employee to be hired is an employee thereof. .

- 2 An Association Member must not hire any person who has been treated as a Class-1 Perpetrator of an Inappropriate Act by the Association prescribed in the provision of Article 12, Paragraph 1, regardless of whatever name he/she may use.
- 3 An Association Member must not hire any person who has been treated as a Class-2 perpetrator of an inappropriate act by the Association prescribed in the provision of Article 12, Paragraph 1 hereof during the period of five years from the date when the decision on such treatment is made regardless of whatever name he/she may use.

III- 4. JSDA Rules for Disciplinary Action Etc. Against Officers and Employees of Association Members (ii)



[Rules Concerning Qualification and Registration, Etc. of Sales Representatives of Association Members]

(Action Prohibiting Business of Sales Representative)

Article 6 If, as the result of its examination prescribed in Article 11 of the “Rules Concerning Employees of the Association Members” (hereinafter referred to as “Employees Rules”), the Association deems that a Sales Representative (including those who used to be Sales Representatives; the same shall apply hereinafter in this Article) breached laws and regulations relating to the Business of Sales Representative or the incidental business thereof, or took a significantly inappropriate action relating to the Business of Sales Representative, the Association shall, in accordance with the decision, take an action that prohibits the business of Sales Representative (hereinafter referred to as the “Action Prohibiting Business of Sales Representative”) with respect to such Sales Representative, to an Association Member to which such Sales Representative belonged at the time of such breach or inappropriate action, within a period of five years. Provided, however, this provision shall not apply if the Association shall take a disciplinary action pursuant to Article 11 of the Rules or regard the Sales Representative as a perpetrator of an inappropriate act pursuant to the provision of Article 12, Paragraph 1 of the Employee Rules.

Article 11 In cases where a registered Sales Representative falls under any of the following Items, the Association may revoke his/her registration or impose suspension from the Business of Sales Representative for a period which is set up for not more than two years pursuant to Article 64-5, Paragraph 1 of the FIEA:

- (1) When the person falls under any of Article 29-4, Paragraph 1, Item 2(a) through (g) of the FIEA, or when it is identified that the person fell under any of the Items of Paragraph 1 of Article 9 Rules at the time of registration;
- (2) When the person has violated any of laws or regulations concerning the Business of Sales Representative or business incidental to Financial Instruments Business conducted by an Association Member (i.e. businesses conducted by the Regular Member, OTC Derivatives Transaction Member, or Special Member set forth in each Item of Article 5 of the Articles of Association), or when it is recognized that the person has done any other significantly improper act with respect to the duties of Sales Representative; or
- (3) When it is identified that, in case the registration of the person has been deleted in the last five years prescribed in Article 14, Paragraph 1, Item 3, any act of such person during the period registered (limited to the act in the last five years) fell under the preceding Item.

III- 5. Statistical Data of Disciplinary Actions Against Officers and Employees of Association Members (i)



(Number of Persons)

F Y	Employees	Registered SRs	Revocation of Registration & Treatment of Perpetrator of an Unacceptable Act	Suspension and Prohibition from Duties	Disciplinary Action Relating to Sales Manager & Internal Administrator
2010	453,440	438,008	20	70	8
2011	448,379	433,699	23	85	12
2012	437,331	424,674	16	93	6
2013	432,967	424,423	6	123	13
2014	435,215	422,875	26	88	13
2015*	441,726	429,292	8	63	6

- Notes 1. Employees is the sum total of employees of Regular Members and Registered SRs of Special Members.
 2. Employees and Registered SRs are as of the end of Dec. except for FY2015, which is as of the end of June.
 3. Numbers other than Employees and Registered SRs are the total number of people. Figures for FY2015 are up to the end of Nov. 2015.

III- 5. Statistical Data of Disciplinary Actions Against Officers and Employees of Association Members (ii)



Disciplinary Actions Taken Against Sales Representatives for Past 3 Years: Types of Misconduct

Type of Misconduct		2014	2013	2012
Breach of Laws and Regulations	Trading without consent	23	39	33
	Fraud/ Misappropriation	23	7	13
	False or misleading representation/ False notification	19	28	17
	Compensation of loss/ Provision of profits	9	15	10
	Speculative trading	8	8	15
	Extremely inappropriate conduct regarding duty of sales representative	6	4	0
	Refusal to conduct financial instrument transactions or delaying those transactions unreasonably	4	4	3
	Provision of conclusive evaluations	0	3	0
	Artificial creation of a market price and its acceptance	0	1	0
	Others	5	1	7
	Sub-total	97	110	98

Type of Misconduct		2014	2013	2012
Breach of JSDA Rules	Leakage of confidentiality	7	5	3
	Acceptance of false name transaction	3	4	0
	Borrowing/ Lending of money and securities	2	3	0
	Placing orders with another association member (<i>Jiba-Dashi</i>)	1	1	2
	Name lending	1	0	0
	Excessive solicitation	1	0	0
	Investment solicitation of unlisted shares	0	1	2
	Name borrowing	0	1	0
	Unfair sale of publicly offered shares	0	0	1
	Delayed delivery	0	0	1
	Sub-total	15	15	9
	Falling under deficient cases	2	4	2
Total	114	129	109	

(Note) Regarding the case involving multiple acts of misconduct and violations of laws and regulations, we have chosen one that has been the most relevant to the judgment on disciplinary action, etc., and have counted it as the number of acts of misconduct by type.

IV- 1. Case Studies: Breach of Laws and Regulations by Officers and Employees of Association Members (Misappropriation)



Misappropriation

(Outline of Misconduct)
The perpetrator has explained that the customer's signature and seal on the payment slip would be necessary when purchasing the MMF with the deposited money. However, after having received the customer's signature, etc., the perpetrator did not, in fact, purchase the MMF and misappropriated the money that he withdrew.
(Motive)
Use this money to repay card loans and consumer loans.

(Outline of Misconduct)
The perpetrator explained to the customer that the surplus money generated when purchasing financial products would be treated as a deposit. However, in fact, the perpetrator misappropriated it.
(Motive)
Struggling to achieve the sales targets, the perpetrator would like to use the money for lending the purchase price to other customers for their purchase of financial products

(Outline of Misconduct)
Thinking that there would be no inquiry from customers regarding the account for which the customer's address is unknown, and that it was less than likely to be uncovered even by an in-house inspection, the perpetrator misappropriated money in a way to transfer the customer funds to his own bank account.
(Motive)
To produce funds for repaying debts

IV-2. Case Studies: Breach of Laws and Regulations by Officers and Employees of Association Members (Trading Without Consent)



(Outline of Misconduct)
In order to increase the number of contracts for cumulative-type investment trusts, the perpetrator has selected customers who had no outstanding balance in their accounts, and has concluded a contract to apply for the investment trusts without the consent of customers (recognizing that the said investment trusts would be purchased once money enters these accounts). Later on, because a certain number of customers received stock dividends, the said investment trusts were purchased in these customers' accounts.

(Motive)
To increase the number of sales contracts regarding cumulative-type investment trusts

(Clue to Discovery)
Reported by customers

① Personally fabricate an application form for accumulative investment trust on customer's behalf

② Informing customers not to be worried about errors in money transfer of cumulative-type investment trust

③ Accumulative investment

(Outline of Misconduct)
In order to achieve prospective sales that were excessively committed, the perpetrator intended to make a solicitation to sell the retail investors targeted JGBs and purchase of other bonds, but he could not communicate with the customer. Thus, in order to ensure there are purchase funds, the perpetrator has sold the said retail investor targeted JGBs held by the customer.

(Motive)
To achieve prospective sales that had been committed in excess

(Clue to Discovery)
In-house investigation

① Commit excessive amount of prospective sales

② Intend to solicit sale of retail investor targeted JGBs and purchase of other bonds

③ Retail investors targeted JGBs were sold without customer's consent

IV-3. Case Studies: Breach of Laws and Regulations by Officers and Employees of Association Members (False Information)



(Outline of Misconduct)
By making a false report to customers that does not look attentively in the transaction report, such as reporting an excessively small amount of loss, or reporting an excessively large amount of custody assets, the perpetrator received orders and executed the transactions.

(Motive)
To improve sales performance

(Clue to Discovery)
In-house investigation

① Report an excessively small amount of loss

② Report excessively large amount of custody assets (commit falsification of detailed report of custody assets)

③ Receive orders and execute transactions

(Outline of Misconduct)
The perpetrator had received a purchase order for stock from Customer A and executed it. However, while he was communicating with Customer B, the perpetrator forgot that the purchase order of Customer A had already been executed, and executed the said purchase order again. When processing the slip soon after, he became aware of the duplicated order execution. In order to hide his operational mistake, the perpetrator then proposed an additional purchase of stocks to the customer A, and received the purchase order and executed it.

(Motive)
To conceal operational failure.

(Clue to Discovery)
In-house investigation

① Execute purchase orders for foreign stocks

② Take care of another customer's orders

③ False notification/ Receive customer's consent

④ Verification of order slips

⑤ Verification of order slips

⑥ Remain

⑦ Reply - No problem

IV- 4. Case Studies: Breach of Laws and Regulations by Officers and Employees of Association Members (Compensation of Loss or Provision of Profits)



(Outline of Misconduct)

The perpetrator made a solicitation for purchasing foreign bonds under a secondary offering, and received a purchase order from a customer following the customer's response that he would subscribe if it was possible to cancel it. However, the perpetrator forgot to tell the customer at that time that he/she needed to pay the forex cost if he/she canceled during the period of secondary offering.

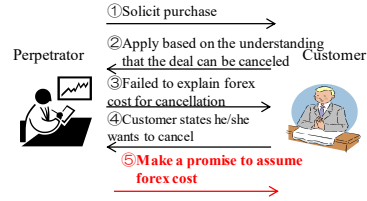
Later on, the perpetrator received from the customer a request to cancel the purchase of bonds. Although the perpetrator recognized the failure to explain the forex cost, he made a promise to the customer to pay the forex cost due to cancellation in order to avoid criticism.

(Motive)

To avoid criticism for his method of solicitation

(Clue to Discovery)

Reported by customer



(Outline of Misconduct)

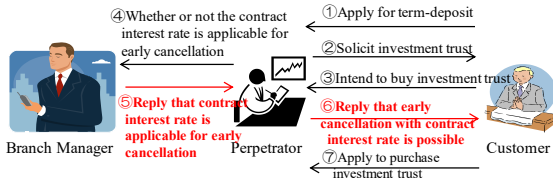
Although the perpetrator should have waited for the arrival of maturity of the term-deposit before starting solicitation of any other financial product, in order to quickly conclude a contract with a customer who was interested in the investment trusts, he accepted after consulting his superior a request for the early cancellation of the term-deposit by applying the initial contract interest rate (which was larger than interest rate to be applied for early cancellation).

(Motive)

To improve sales performance / Lack of understanding regarding laws and regulations

(Clue to Discovery)

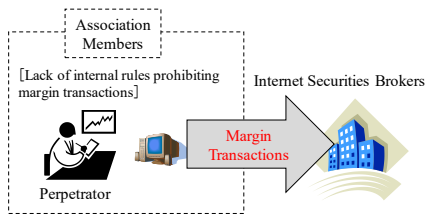
In-house investigation



IV- 5. Case Studies: Breach of Laws and Regulations by Officers and Employees of Association Members (Other Types of Misconduct (i))



Speculative Trading



(Outline of Misconduct)

Because the margin transactions were not prohibited by in-house rules, the perpetrator carried out margin transactions even after margin transactions by officers and employees were prohibited by the enactment of the Financial Instruments and Exchange Act on September 30, 2007, failing to recognize that fact.

(Motive)

To pursue personal speculative profits

(Clue to Discovery)

Regulator's investigation

Involvement in Insider Trading

(Outline of Misconduct)

In order to obtain a reward for providing information, the perpetrator informed a day trader with whom he was acquainted of the insider information acquired from an officer of the listed company.

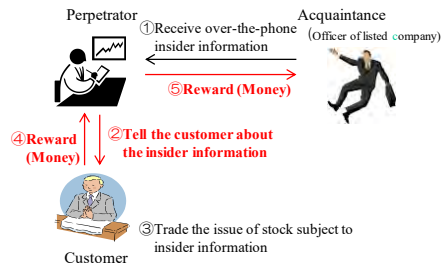
The perpetrator carried out transactions on the basis of this information and received money as a reward from the said day trader that made profits.

(Motive)

To obtain a reward for the provision of information

(Clue to Discovery)

Regulator's investigation



IV- 6. Case Studies: Breach of Laws and Regulations by Officer and Employees of Association Members (Other Types of Misconducts (ii))



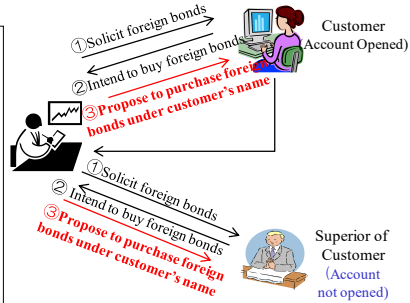
Acceptance of Transactions Under False Name

(Outline of Misconduct)

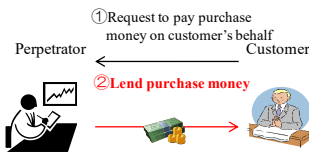
When the perpetrator made a solicitation to a customer for foreign bonds, he made also a solicitation to a superior of the customer present, and received a purchase order for the foreign bonds from the superior of the customer. However, the superior of the customer did not hold an account with the company, and it would take several days to open the account. The perpetrator, who would like to immediately increase his sales performance, executed an order to buy the foreign bonds for the superior of the customer in the customer's account with the consent of the customer and his/her superior.

(Motive)

To improve sales performance
(Clue to Discovery)
In-house investigation



Borrowing and Lending of Money and Securities



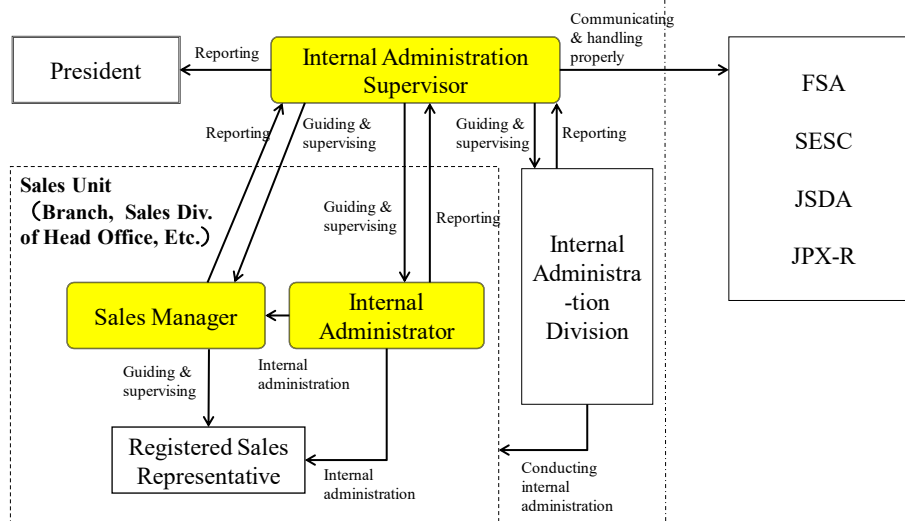
(Outline of Misconduct)

Although the perpetrator made a solicitation to purchase stock and received an agreement from the customer, later on he received a request from the customer to borrow money, with the customer saying he/she was not able to prepare the money by the designated date for the settlement of the purchase money. So, the perpetrator extended the purchase money to the customer. Later on, the perpetrator became unable to refuse requests to lend money whenever such a request came from the customer.

(Motive)

To avoid the purchase money going unpaid
(Clue to Discovery)
In-house investigation

V - 1. Internal Administration System, Etc. of Association Members



V - 2. Duties of Sales Managers and Internal Administrators



[Rules Concerning Internal Administrators, Etc. of Association Members]

(Duties of Sales Manager)

Article 12 The Sales Manager must comply with the FIEA and other laws, regulations, and various rules; and guide and supervise officers or employees belonging to each sales unit for which the Sales Manager is appointed as the Sales Manager to keep a business attitude toward complying with the FIEA and other laws, regulations, and various rules so that sales activities including a solicitation for investments and management of customers may be properly carried out.

- 2 The Sales Manager must, when there has occurred a serious case concerning sales activities including a solicitation for investments and management of customers at the sales unit for which the Sales Manager is appointed as the Sales Manager, promptly report the contents thereof to the Internal Administration Supervisor and receive his/her instructions.

(Duties of Internal Administrator)

Article 15 Internal Administrator must comply with the FIEA and other laws, regulations, and various rules; and perform proper internal administration by such means as constantly supervising to see if sales activities at the sales unit for which the Internal Administrator is appointed as the Internal Administrator are properly carried out in accordance with the FIEA and other laws and regulations.

- 2 Internal Administrator must, when there has occurred a serious case concerning sales activities including solicitation for investments and management of customers at the sales unit for which the Internal Administrator is appointed as the Internal Administrator, promptly report to the Internal Administration Supervisor and receive his/her instructions.

V - 3. Prohibition of Posting Delinquent Sales Managers and Internal Administrators



(Decision Concerning Action Prohibiting Allocation of Sales Manager)

Article 17 If, as a result of examination of a Report of Development and Results of the Incidents submitted by an Association Member pursuant to Article 10, Paragraph 1 of the Employee Rules, or Accredited Materials prescribed in Article 11, Paragraph 4 of the same Rules, or any material reported or submitted by an Association Member pursuant to the rules set forth in the next Paragraph, the Sales Manager is subject to either of the following Items, the Association may take an action that prohibits the Association Member to which such Sales Manager belonged when he/she was subject to either of the following Items from appointing or allocating such Sales Manager as a Sales Manager or an Internal Administrator in a period within five years. Provided, however, this provision shall not apply if the Association regards such Sales Manager as a Perpetrator of an Inappropriate Act pursuant to Article 12, Paragraph 1 of the Employee Rules..

- (1) The Sales Manager personally breaches laws or regulations;
- (2) Officers or employees who belong to the sales unit for which the Sales Manager is appointed as Sales Manager breach laws or regulations, and it is judged that the Sales Manager has not sufficiently performed his or her duties as prescribed in Article 12, such as the Sales Manager having concealed or having taken no action against such breach of laws and regulations, etc. or such breach having been caused by the instruction by the Sales Manager.

(Decision Concerning Action Prohibiting Allocation of Internal Administrator)

Article 18 If, as a result of examination of a Report of Development and Results of the Incidents submitted by an Association Member pursuant to Article 10, Paragraph 1 of the Employee Rules, or Accredited Materials prescribed in Article 11, Paragraph 4 of the same Rules, or any material reported or submitted by an Association Member pursuant to the rules set forth in the next Paragraph, the Internal Administrator is subject to either of the following Items, the Association may take an action that prohibits the Association Member to which such Internal Administrator belonged when he/she was subject to either of the following Items from appointing or allocating such Internal Administrator as a Sales Manager or an Internal Administrator in a period within five years. Provided, however, this provision shall not apply if the Association regards such Internal Administrator as a Perpetrator of an Inappropriate Act pursuant to Article 12, Paragraph 1 of the Employee Rules.

- (1) The Internal Administrator personally breaches laws or regulations;
- (2) Officers or employees who belong to the sales unit for which the Internal Administrator is appointed as Internal Administrator breach laws or regulations, and it is judged that the Internal Administrator has not sufficiently performed his or her duties as prescribed in Article 15, such as the Internal Administrator having concealed or having taken no action against such breach, or such breach having been caused by the instruction by the Internal Administrator.

Thank you for your attention!

Financial Instruments and Exchange Act

(Act No. 25 of April 13, 1948)

Chapter IV Financial Instruments Firms Association

Section 1 Authorized Financial Instruments Firms Association

Subsection 1 Establishment and Business (Article 67 - Article 67-20)

Subsection 2 Association Members (Article 68 and Article 68-2)

Subsection 3 Management (Article 69 - Article 72)

Subsection 4 Supervision (Article 73 - Article 76)

Subsection 5 Miscellaneous Provisions (Article 77 - Article 77-7)

Chapter IV Financial Instruments Firms Association

Section 1 Authorized Financial Instruments Firms Association

Subsection 1 Establishment and Business

(Purposes of Authorized Association)

- Article 67 (1) An Authorized Financial Instruments Firms Association (hereinafter referred to as an "Authorized Association" in this Chapter) aims to ensure fair and smooth sales and purchase or other transactions of Securities and Derivative Transactions, etc. and to contribute to the sound development of Financial Instruments Businesses and protection of investors.
- (2) An Authorized Association may establish a market where Over-the-Counter Traded Securities are traded (limited to the cases where Member Firms (meaning the members of an Authorized Association; hereinafter the same shall apply in this Section) conduct such transactions on their respective account, and the case where Member Firms provide intermediary, brokerage or agency service; the same shall apply in Article 67-11(1)) (hereinafter referred to as the "Over-the-Counter Securities Market"), in order to facilitate distribution of Securities (limited to Securities not listed on a Financial Instruments Exchange; the same shall apply in Article 67-11(1)), to ensure fairness of the sales and purchase or other transactions of Securities, and to contribute to the protection of investors.
- (3) An Authorized Association shall be a juridical person.
- (4) A person who is not an Authorized Association shall not use any term in its name that is likely to mislead people to understand that said person is an Authorized Financial Instruments Firms Association.

(Authorization of Establishment)

- Article 67-2 (1) An Authorized Association may be established only by Financial Instruments Business Operators.
- (2) A Financial Instruments Business Operator who intends to establish an Authorized Association shall obtain an authorization from the Prime Minister.
- (3) Registered Financial Institutions shall be deemed to be Financial Instruments Business Operators with regard to application of the provisions of the preceding two paragraphs, Article 68(1) and (2), Article 78(1), Article 79-7(1) and Article 79-11, within the scope of performing Registered Financial Institution Businesses.

(Submission of Application for Authorization)

- Article 67-3 (1) A person who intends to obtain an authorization under paragraph (2) of the preceding Article shall submit an application for authorization containing the following matters to the Prime Minister:
- (i) the name;
- (ii) the location of office; and
- (iii) the names of Officers and names of Member Firms.
- (2) The articles of incorporation and other rules as well as other documents specified by a Cabinet Office Ordinance shall be attached to the application for authorization under the preceding paragraph.

(Examination of Application for Authorization)

- Article 67-4 (1) When an application for authorization under paragraph (1) of the preceding Article has been filed, the Prime Minister shall examine whether the application conforms to the following criteria:
- (i) the provisions of the articles of incorporation and other rules conform to laws and regulations, and are sufficient to facilitate fair and smooth sales and purchase or other transactions of Securities as well as Derivative Transactions, etc., and to ensure sound development of Financial Instruments Businesses and protection of investors; and
- (ii) an Authorized Association pertaining to said application will be organized in such a manner that conforms to the provisions of this Act.

- (2) When the Prime Minister finds that the application for authorization conforms to the criteria under the preceding paragraph, as a result of an examination under said paragraph, he/she shall grant the authorization of establishment, except for the cases where the application falls under any of the following items:
- (i) when the applicant for authorization is a person who has been punished by a fine under the provisions of this Act, and for whom five years have not passed since the day when the execution of the punishment terminated or he/she became free from execution of the punishment;
 - (ii) when any of the Officers include any person who falls under any of the categories of the persons prescribed in items (a) to (g) inclusive of Article 29-4(1)(ii); or
 - (iii) when the application for authorization or documents to be attached thereto includes fake statements on important matters.

(Hearing of Applicant for Authorization and Notification)

- Article 67-5 (1) The Prime Minister shall, when he/she has received an application for authorization under Article 67-3(1) and finds it inappropriate to grant the authorization, notify to that effect to the applicant for authorization and have the officials conduct a hearing.
- (2) The Prime Minister shall, when he/she has decided to grant or refuse to grant an authorization under Article 67-2(2), notify to that effect in writing to the applicant for authorization without delay.

(Rescission of Authorization)

- Article 67-6 When an Authorized Association is found to have already fallen under any of the categories specified in any of the items of Article 67-4(2) at the time of receipt of the authorization of establishment, the Prime Minister may rescind its authorization.

(Prohibition of Pursuit of Profit)

- Article 67-7 An Authorized Association shall not conduct any business for profit.

(Matters Which Must be Stated in Articles of Incorporation)

- Article 67-8 (1) The articles of incorporation of an Authorized Association shall contain the following matters (limited to an Authorized Association that establishes an Over-the-Counter Securities Market, with regard to the matters listed in item (xiii)):
- (i) the purpose;
 - (ii) the name;
 - (iii) the location of offices;
 - (iv) matters related to Member Firms;
 - (v) matters related to general meeting;
 - (vi) matters related to Officers;
 - (vii) matters related to council and other meetings;
 - (viii) matters related to execution of business operations;
 - (ix) matters related to improvements in qualities of Officers and employees of the Member Firms, and qualities of the Financial Instruments Intermediary Service Providers (limited to the Financial Instruments Intermediary Service Providers of which Entrusting Financial Instruments Business Operator, etc. is a Member Firm; hereinafter the same shall apply in this Section) and their Officers and employees;
 - (x) matters related to preparation of rules;
 - (xi) matters related to complaint resolution filed by investors concerning the operations of the Member Firms or Financial Instruments Intermediary Service Providers and mediation as prescribed in Article 77-2;
 - (xii) matters related to sales and purchase or other transactions of Securities solicited by Member Firms or Financial Instruments Intermediary Service Providers;
 - (xiii) matters related to an Over-the-Counter Securities Market;

- (xiv) matters related to investigation of the status of observance of laws and regulations, dispositions given by government agencies based on laws and regulations, or the articles of incorporation or other rules, or the fair and equitable principles of transactions by Member Firms and Financial Instruments Intermediary Service Providers;
 - (xv) matters related to membership fees;
 - (xvi) matters related to accounting and assets; and
 - (xvii) the methods of public notices.
- (2) If an Authorized Association intends to change its articles of incorporation, it shall obtain authorization from the Prime Minister.
- (3) When there are any changes in matters listed in Article 67-3(1)(ii) or (iii), an Authorized Association shall notify to that effect to the Prime Minister without delay. The same shall apply to cases where rules of an Authorized Association (excluding the articles of incorporation; and with regard to an Authorized Association which establishes an Over-the-Counter Securities Market, excluding the rules set forth in Article 67-12) have been prepared, changed or abolished.

(Capacity of Representative Person, etc. to Commit Tortious Acts)

Article 67-9 An Authorized Association is liable for damage caused to others by its president or director during the course of the performance of their duties.

(Address of Authorized Association)

Article 67-10 The address of an Authorized Association shall be at the location of its principal office.

(Registration in the Registry of Over-the-Counter Traded Securities)

- Article 67-11 (1) An Authorized Association which establishes an Over-the-Counter Securities Market shall register the types and issues of Securities to be sold and purchased on the relevant Over-the-Counter Securities Market in the Registry of Over-the-Counter Traded Securities to be kept at the Authorized Association.
- (2) The Authorized Association set forth in the preceding paragraph shall keep a copy of the Registry of Over-the-Counter Traded Securities at its office and make the copy available for public inspection, pursuant to the provisions of a Cabinet Office Ordinance.

(Authorization of Regulations)

- Article 67-12 When an Authorized Association intends to establish an Over-the-Counter Securities Market, it shall stipulate in its rules the following matters with regard to the registration under paragraph (1) of the preceding Article and Over-the-Counter Traded Securities, and obtain an authorization from the Prime Minister. The same shall apply to cases where the Authorized Association intends to change or abolish said rules:
- (i) criteria and methods of registration, and rescission thereof;
 - (ii) matters related to report and announcement of trading price;
 - (iii) methods of concluding contracts on sales and purchase or other transactions;
 - (iv) methods of transfer and other settlement; and
 - (v) in addition to the matters listed in each of the preceding items, necessary matters related to sales and purchase or other transactions of the Over-the-Counter Traded Securities.

(Notification of Registration, etc.)

Article 67-13 When an Authorized Association intends to conduct registration under Article 67-11(1) or rescission of such registration, it shall notify to that effect to the Prime Minister.

(Order for Registration of Share Certificates, etc.)

Article 67-14 With respect to the Share Certificates, etc. issued by the Issuer of the Over-the-Counter Traded Securities registered by an Authorized Association (limited to the share certificates, or the securities or certificates listed in Article

2(1)(xx) indicating the rights pertaining to share certificates (hereinafter referred to as the "Share Certificates, etc." in this Article and in Article 125)) which have not been registered by said Authorized Association under the provision of Article 67-11(1), if the Prime Minister finds that registration by said Authorized Association of said Share Certificates, etc. under said paragraph is necessary and appropriate for the public interests or protection of investors, he/she may order said Authorized Association to register said Share Certificates, etc. under the provision of said paragraph.

(Order of Rescission of Registration, etc.)

Article 67-15 (1) When an Authorized Association intends to conduct or has conducted registrations of Securities under the provision of Article 67-11(1), or intends to rescind or has rescinded said registrations, in violation of its rules specifying the matters prescribed in Article 67-12(i), the Prime Minister may order said Authorized Association to rescind the registered Securities or to re-register the Securities of which registrations have been rescinded, or to take the measures necessary for rectification of the violation. In this case, a hearing shall be held irrespective of the categories of procedures for hearing statements of opinion under Article 13(1) of the Administrative Procedure Act.

(2) With regard to the application of the provisions of Section 2, Chapter III of the Administrative Procedure Act in cases where the notice under Article 15(1) of said Act has been provided in the hearings pertaining to the disposition under the provision of the preceding paragraph, the Issuer of the relevant Securities shall be deemed as the person who has received the notice under Article 15(1) of said Act.

(Notification of Suspension, etc. of Sales and Purchase)

Article 67-16 With regard to the Over-the-Counter Traded Securities registered by an Authorized Association, when an Authorized Association has suspended, or cancelled suspension of, sales and purchase of said Over-the-Counter Traded Securities on the Over-the-Counter Securities Market, it shall notify to that effect to the Prime Minister without delay.

(Order of Suspension of Sales and Purchase, etc.)

Article 67-17 (1) When an issuer of the Over-the-Counter Traded Securities has violated this Act, an order given under this Act, or the rules of the Authorized Association which has registered the relevant Over-the-Counter Traded Securities, if the Prime Minister finds it necessary and appropriate for the public interest or protection of investors, he/she may order said Authorized Association to suspend sales and purchase of, or to rescind registration of, the Over-the-Counter Traded Securities on the Over-the-Counter Securities Market established by said Authorized Association. In this case, a hearing shall be held irrespective of the categories of procedures for hearing statements of opinion under Article 13(1) of the Administrative Procedure Act.

(2) With regard to the application of the provisions of Section 2, Chapter III of the Administrative Procedure Act in cases where the notice under Article 15(1) of said Act has been provided in the hearings pertaining to the disposition under the provision of the preceding paragraph, the issuer specified in the preceding paragraph shall be deemed as the person who has received the notice under Article 15(1) of said Act.

(Report to Authorized Association)

Article 67-18 A Member Firm (in cases where any of the items (i) to (iii) applies, limited to a Member Firm of an Authorized Association which establishes an Over-the-Counter Securities Market) shall report the matter listed in each of the following items in the respective case specified therein to the Authorized Association to which it belongs, pursuant to the provisions of a Cabinet Office Ordinance:

(i) when sales and purchase of Over-the-Counter Traded Securities conducted on the Member Firm's own account, or sales and purchase of Over-the-Counter

- Traded Securities for which the Member Firm has provided intermediary, brokerage or agency services has been effected: the kinds, issues, prices or volumes, or other matters specified by a Cabinet Office Ordinance pertaining to the Securities for which the sales and purchase is effected;
- (ii) when a Member Firm makes an offer for sales or purchase of Over-the-Counter Traded Securities on its own account: the kinds, issues, prices or other matters specified by a Cabinet Office Ordinance pertaining to the Securities for which the offer for sales or purchase is made;
 - (iii) when a Member Firm has accepted entrustment, etc. of sales and purchase of Over-the-Counter Traded Securities: the kinds, issues, prices, volumes or other matters specified by a Cabinet Office Ordinance pertaining to the Securities for which the Member Firm has accepted entrustment, etc.;
 - (iv) when sales and purchase of the Tradable Securities (meaning the Share Certificates, bonds with share option or any other Securities specified by a Cabinet Office Ordinance for which solicitation of sales and purchase or other transactions has not been prohibited by said Authorized Association under its rules (excluding Securities listed on a Financial Instruments Exchange and Over-the-Counter Traded Securities; the same shall apply hereinafter) conducted on the Member Firm's own account, or sales and purchase of the Tradable Securities for which the Member Firm has provided intermediary, brokerage or agency services has been effected: the kinds, issues, prices or volumes or other matters specified by a Cabinet Office Ordinance pertaining to the Securities for which the sales and purchase is effected;
 - (v) when a Member Firm makes an offer for sales or purchase of Tradable Securities on its own account: the kinds, issues, prices or other matters specified by a Cabinet Office Ordinance pertaining to the Securities for which the offer for sales or purchase is made;
 - (vi) when a Member Firm has accepted entrustment, etc. of sales and purchase of Tradable Securities: the kinds, issues, prices, volumes or other matters specified by a Cabinet Office Ordinance pertaining to the Securities for which the Member Firm has accepted entrustment, etc.;
 - (vii) when a sales and purchase of the Listed Share Certificates, etc. (meaning the share certificates, bonds with share option or any other Securities specified by a Cabinet Office Ordinance which are listed on a Financial Instruments Exchange; hereinafter the same shall apply in this Article to Article 78-5 inclusive) conducted outside of a Financial Instruments Exchange Market on the Member Firm's own account, or sales and purchase of Listed Share Certificates, etc. conducted outside of a Financial Instruments Exchange Market for which the Member Firm has provided intermediary, brokerage or agency services has been effected: the kinds, issues, prices or volumes or other matters specified by a Cabinet Office Ordinance pertaining to the Listed Share Certificates, etc. for which the sales and purchase is effected; or
 - (viii) when a Member Firm makes, outside of a Financial Instruments Exchange Market, an offer for sales or purchase of the Listed Share Certificates, etc. to a large number of persons simultaneously, or in other cases specified by a Cabinet Office Ordinance: the kinds, issues, prices or other matters specified by a Cabinet Office Ordinance pertaining to the Securities for which the offer for sales or purchase is made.

(Notices, etc. of Trading Volume, Price, etc.)

Article 67-19 An Authorized Association shall, pursuant to the provisions of a Cabinet Office Ordinance and based on the reports made pursuant to the provision of the preceding Article, notify its Member Firms and also publicize the daily trading volume, and highest price, lowest price, closing price and any other matters for each day and for each issue in relation to sales and purchase of Over-the-Counter Traded Securities on the Over-the-Counter Securities Market established by said Authorized Association, sales and purchase of the Tradable Securities, and sales and purchase of the Listed Share Certificates, etc. conducted outside of a Financial Instruments Exchange Market (limited to those which a

Member Firm conducts on its own account, and those for which a Member Firm provides intermediary, brokerage or agency services; hereinafter the same shall apply in the following Article).

(Report of Trading Volume, Price, etc.)

Article 67-20 An Authorized Association shall, pursuant to the provisions of a Cabinet Office Ordinance, report to the Prime Minister the daily trading volume, and highest price, lowest price, closing price and any other matters for each day and for each issue in relation to sales and purchase of Over-the-Counter Traded Securities on the Over-the-Counter Securities Market established by said Authorized Association, sales and purchase of the Tradable Securities, and sales and purchase of the Listed Share Certificates, etc. conducted outside of a Financial Instruments Exchange Market.

Subsection 2 Member Firms

(Qualification of Member Firms and Restriction on Membership of Authorized Association)

Article 68 (1) Member Firms of an Authorized Association shall be limited to Financial Instruments Business Operators.

(2) An Authorized Association shall stipulate in its articles of incorporation that any Financial Instruments Business Operator is eligible for membership as a Member Firm, excluding the cases set forth in paragraph (5); provided, however, that this shall not apply to cases where a membership is restricted due to reasons of geographic conditions or types of the business of the Financial Instruments Business Operator.

(3) An Authorized Association shall stipulate in its articles of incorporation that it shall endeavor to prevent fraudulent acts, market manipulation or collection of unreasonable fees or expenses and other acts of unfair profiting by Member Firms and Financial Instruments Intermediary Service Providers, as well as to promote the fair and equitable principles of transactions.

(4) An Authorized Association shall stipulate in its articles of incorporation that it shall endeavor to prevent acts in violation of laws and regulations or its articles of incorporation or other rules and to ensure confidence of investors, by having Member Firms establish the internal rules and control systems of said Member Firms and Financial Instruments Intermediary Service Providers whose Entrusting Financial Instruments Business Operator, etc. is said Member Firm for the purpose of observance of the laws and regulations and the Authorized Association's articles of incorporation and other regulations.

(5) An Authorized Association may stipulate in its articles of incorporation that the Authorized Association may refuse the admission as a Member Firm if an applicant has been ordered to suspend sales and purchase or other transactions of Securities or Derivative Transactions, etc. or has been expelled from membership of, or has had qualification for trading rescinded by, an Authorized Association or a Financial Instruments Exchange, on account of having violated laws and regulations, dispositions issued by government agencies based on laws and regulations, or the articles of incorporation or other rules of the Authorized Association or a Financial Instrument Exchange, or of having conducted acts contrary to the fair and equitable principles of transactions.

(6) An Authorized Association shall make a list of Member Firms available for public inspection.

(Dispositions, etc. Rendered to Member Firms)

Article 68-2 An Authorized Association shall stipulate in its articles of incorporation that, when a Member Firm or a Financial Instruments Intermediary Service Provider whose Entrusting Financial Instruments Business Operators, etc. is the Member Firm has violated laws and regulations, dispositions rendered by government agencies based on laws and regulations, or the Authorized Association's articles of incorporation or other rules, or has violated the fair and

equitable principles of transactions, the Authorized Association shall impose a fine for default, order said Member Firm to suspend or limit the rights of a Member Firm under the articles of incorporation or shall expel said Member Firm from the Authorized Association.

Subsection 3 Management

(Appointment of Officers and Their Authorities)

Article 69 (1) An Authorized Association shall appoint one president, two or more directors and two or more auditors as its Officers.

(2) The president shall represent the Authorized Association and preside over its affairs.

(3) The directors shall, pursuant to the provisions of the articles of incorporation, represent the Authorized Association, administer the affairs of the Authorized Association assisting the president, perform the duties of the president in his/her place when the president is unable to attend to his/her duties, and perform the duties of the president when the post is vacant.

(4) The auditors shall audit the affairs of an Authorized Association.

(5) An Officer shall lose the position when he/she comes to fall under any of the items (a) to (g) of Article 29-4(1)(ii).

(Order to Dismiss Officers)

Article 70 When the Prime Minister discovers that a person has become an Officer of an Authorized Association by wrongful means, or when an Officer of an Authorized Association has violated laws and regulations, a disposition issued by government agencies based on laws and regulations or its articles of incorporation, he/she may order the Authorized Association to dismiss said officer.

(Provisional Directors or Provisional Auditor)

Article 71 The Prime Minister may, when there is no person to perform the duties of a director or auditor and if he/she finds it necessary, appoint a provisional director or provisional auditor.

(Obligation of Confidentiality, etc. of Officers and Employees)

Article 72 (1) Officers or employees, or a person who was formerly in such position of an Authorized Association shall not divulge to another person or misappropriate any confidential information learned during the course of his/her duties.

(2) Officers or employees, or a person who was formerly in such position of an Authorized Association shall not use any information learned during the course of his/her duties for purposes other than providing for use in relation to the business of the Authorized Association.

Subsection 4 Supervision

(Order for Change of Articles of Incorporation, Operational Rules, etc.)

Article 73 When the Prime Minister finds it necessary and appropriate, with regard to an Authorized Association's articles of incorporation or any other rules or trade practice, or its business operation or the status of its property, for the public interest or protection of investors, he/she may order the Authorized Association to change its articles of incorporation or any other rules or trade practice, or to take other necessary measures for supervision, within the limit necessary. In this case, a hearing shall be held irrespective of the categories of procedures for hearing statements of opinion under Article 13(1) of the Administrative Procedure Act.

(Rescission of Authorization, Suspension of Business, Dismissal of Officers, etc. Due to Violation of Laws and Regulations, etc.)

Article 74 (1) When an Authorized Association has violated laws and regulations, a disposition given by government agencies based on laws and regulations, or its articles of incorporation or any other rules (hereinafter referred to as the "Laws

and Regulations, etc." in this Article); or, despite the fact that a Member Firm, a Financial Instruments Intermediary Service Provider, or an issuer of Over-the-Counter Traded Securities or Tradable Securities has violated the Laws and Regulations, etc., or has committed an act contrary to the fair and equitable principles of transactions specified in the articles of incorporation or any other rules, the Authorized Association has failed to exercise its powers vested under this Act, an order given under this Act, or its articles of incorporation or any other rules, or to take any other necessary measures, for having such persons observe the Laws and Regulations, etc. or the fair and equitable principles of transactions, if the Prime Minister finds it necessary and appropriate for the public interest and protection of investors, he/she may rescind the authorization of its establishment, issue an order of suspension of all or part of its business, specifying a period of suspension not exceeding one year, issue an order of change of its business methods or of prohibition of a part of its business, issue an order of dismissal of its Officers, or issue an order to take necessary measures specified in the articles of incorporation or any other rules.

- (2) When the Prime Minister intends to issue an order of suspension of all or part of business, an order of change of business methods or of prohibition of a part of business, or an order to take necessary measures specified in the articles of incorporation or any other rules under the provisions of the preceding paragraph, he/she shall hold a hearing irrespective of the categories of procedures for hearing statements of opinion under Article 13(1) of the Administrative Procedure Act.

(Order for Production of Reports and Inspection)

Article 75 When the Prime Minister finds it necessary and appropriate for the public interest or protection of investors, he/she may order an Authorized Association, an issuer of Over-the-Counter Traded Securities or Tradable Securities or a person who received entrustment of business from said Authorized Association to submit reports or materials that will be helpful for understanding the business or property of said Authorized Association, or have the officials inspect the status of the business or property, or the books and documents or other articles of said Authorized Association or the person who received entrustment of business from said Authorized Association (with regard to the person who received entrustment of business from said Authorized Association, the inspection shall be limited to what is necessary to understand the business or property of said Authorized Association).

(Documents to be Submitted to the Prime Minister)

Article 76 An Authorized Association shall submit the following documents to the Prime Minister within three months from the date of the commencement of each business year:

- (i) the business summary report for the previous business year and the business plan for the current business year;
- (ii) the inventory of property as of the end of the previous business year; and
- (iii) the statement on settlement of accounts for the previous business year and the budget statements for the current business year.

Subsection 5 Miscellaneous Provisions

(Response, etc. to Complaints from Investors)

Article 77 (1) When an investor files an application for resolution of a complaint concerning the business carried out by a Member Firm or a Financial Instruments Intermediary Service Provider, an Authorized Association shall respond to a request for consultation, provide necessary advice to the applicant, investigate the circumstances pertaining to such complaint and notify said Member Firm or Financial Instruments Intermediary Service Provider of the substance and content of such complaint and demand that said Member Firm or Financial Instruments Intermediary Service Provider should process the complaint expeditiously.

- (2) When an Authorized Association finds it necessary for resolving the complaint

pertaining to an application under the preceding paragraph, it may demand that the relevant Member Firm or Financial Instruments Intermediary Service Provider should provide a written or oral explanation or submit materials.

- (3) When there has been a demand under the preceding paragraph from an Authorized Association, a Member Firm or Financial Instruments Intermediary Service Provider shall not refuse the demand without justifiable grounds.
- (4) An Authorized Association shall fully inform its Member Firms or Financial Instruments Intermediary Service Providers about any applications under paragraph (1), circumstances pertaining to said complaints and the outcome of any resolution.

(Mediation by Authorized Association)

Article 77-2 (1) When there is a dispute pertaining to sales and purchase or other transactions of Securities or Derivative Transactions, etc. conducted by a Member Firm or a Financial Instruments Intermediary Service Provider, any party to the above transactions may file an application for mediation with an Authorized Association, for the purpose of resolving such dispute.

- (2) When an application under the preceding paragraph has been filed, an Authorized Association shall appoint a mediator who has relevant knowledge and experience and who has no special interest in the parties involved in the dispute pertaining to said filing (hereinafter referred to as the "Case" in this Article) and refer the Case to mediation of said mediator; provided, however, that a mediator shall not conduct mediation when he/she finds that mediation is not suitable for a Case in light of its nature, or that the party concerned has filed an application for mediation for unjust purposes and without due course.
- (3) A mediator may hear opinions of the parties or witnesses, request said persons to submit reports, or request the parties to submit books and documents and other articles that will be helpful; and may prepare a mediation plan necessary for resolution of the Case and recommend the parties to accept said plan, as he/she deems appropriate.
- (4) In the case of the preceding three paragraphs, when a Financial Instruments Intermediary Service Provider is a party concerned, its Entrusting Financial Instruments Business Operators, etc. shall also be deemed the parties thereto.
- (5) When there has been a demand under the provision of paragraph (3), a Member Firm or a Financial Instruments Intermediary Service Provider shall not refuse the demand without justifiable grounds.
- (6) An Authorized Association shall be entitled to collect from the parties all or part of the expenses incurred in relation to mediation.
- (7) A mediator or a former mediator shall not divulge to another person or misappropriate any confidential information learned during the course of his/her duties.
- (8) A mediator or a former mediator shall not use any information learned during the course of his/her duties for purposes other than providing for use in relation to the business of an Authorized Association.

(Entrustment of Mediation Service to Third Parties)

Article 77-3 (1) An Authorized Association may entrust the complaint resolution service prescribed in Article 77(1) and the mediation service prescribed in paragraph (1) of the preceding Article to a person who has the financial basis and personnel structure required for conducting these services in an appropriate manner.

- (2) Notwithstanding the provision of the preceding paragraph, an Authorized Association may not entrust the complaint resolution service and the mediation service referred to in said paragraph to a person who falls under any of the following items:
 - (i) a person who was sentenced under any provision of this Act, if a period of two years has not yet elapsed since the day on which the person served out the sentence or was exempted from the execution of the sentence;
 - (ii) a person whose authorization was rescinded under Article 74(1), if a period of

- two years has not yet elapsed from the date of rescission; or
- (iii) a person, any of whose Officers in charge of its business fall under any of the following conditions:
 - (a) a person who was sentenced to imprisonment or a heavier punishment or was sentenced under any provision of this Act, if a period of two years has not yet elapsed since the day on which the person served out the sentence or was exempted from the execution of the sentence; or
 - (b) a person who was an Officer of an Authorized Association whose authorization was rescinded under Article 74(1), if the person was an Officer of the Authorized Association within at least 30 days before the rescission and a period of two years has not yet elapsed from the date of rescission.
 - (3) A person who is entrusted with the services under paragraph (1) may not entrust the entrusted services to another person.
 - (4) The provisions of the preceding two Articles shall apply mutatis mutandis to the services entrusted by an Authorized Association under paragraph (1).

(Enlightenment Campaigns Carried Out by Authorized Association, etc.)

Article 77-4 An Authorized Association shall endeavor to promote sound development of Financial Instruments Business and protection of investors by dissemination of financial knowledge, enlightenment campaigns and publicity campaigns.

(Registration of Association)

- Article 77-5 (1) An Authorized Association shall be registered pursuant to the provision of a Cabinet Order.
- (2) An Authorized Association shall be established by registering its establishment at the location of its principal office.
 - (3) The matters that require registration under the provision of paragraph (1) may not be duly asserted against a third party until after the registration.

(Causes for Dissolution, etc. of Association)

- Article 77-6 (1) An Authorized Association shall be dissolved based on the following grounds:
- (i) the occurrence of causes specified by the articles of incorporation;
 - (ii) a resolution of a general meeting;
 - (iii) the number of Member Firms has become 5 or less;
 - (iv) a decision of commencement of bankruptcy proceedings; or
 - (v) the rescission of authorization of establishment of an Authorized Association.
- (2) A resolution of a general meeting concerning dissolution of an Authorized Association shall not come into effect unless the authorization of the Prime Minister thereon has been obtained.
 - (3) When an Authorized Association has been dissolved under the provision of item (i) or (iii) of paragraph (1), the former representative person shall notify to that effect to the Prime Minister without delay.
 - (4) With respect to an Authorized Association, when a decision of commencement of bankruptcy proceedings or of conclusion of bankruptcy proceedings has been rendered, or when a rescission of a decision of commencement of bankruptcy proceedings or a decision of earlier termination of bankruptcy proceedings has become final and binding, a court clerk shall notify the Prime Minister to that effect.
 - (5) In addition to what is provided for in the preceding paragraphs, necessary matters concerning the dissolution of Authorized Association shall be specified by a Cabinet Order.

(Delegation to Cabinet Office Ordinance)

Article 77-7 The procedures for implementation of the provisions of Article 67 to the preceding Article inclusive and any other matters necessary for enforcement thereof shall be specified by a Cabinet Office Ordinance.

Self-regulatory Regulations

[Customer Management and Internal Management by Association Member]

- 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 Change, Etc. of Assessment Rates for Substitute Securities Related to Margin Transactions
- Rules Concerning Establishing a Trade Compliance Screening System for the Prevention of Unfair Trading
- Rules Concerning Proper Handling of Pre-Hearing by Association Members
- Rules Concerning Establishment of Order Management System by Association Members
- Rules Concerning Handling of Block Trade for Intermediation Purpose
- Rules Concerning Acceptance, Etc. of Deposit of Securities
- Detailed Rules Related to the Rules Concerning Acceptance of Deposit, Etc. of Securities
- Rules Concerning Appropriate Implementation of Separate Management of Customer Assets by Regular Members
- Rules Concerning Internal Administrators, Etc. of Association Members
- Detailed Rules Related to the Rules Concerning Internal Administrators, Etc. of Association Members
- Rules Concerning Application for Confirmation, Examination, Confirmation, Etc. of Incidents
- Rules concerning uniform accounting regulations of securities-related business
- Rules Concerning Handling of Documents Delivery, Etc. Through Electromagnetic Method
- Rules Concerning Financial Instruments Intermediary Service Providers
- Rules Concerning Protection, Etc. of Customers From Fraudulent Withdrawal Using Counterfeit or Stolen Card
- Rules Concerning Planning, Etc. of Business Continuity Management in Case of Emergency by Regular Members
- Rules Concerning Elimination of Relationships with Antisocial Forces

[Relating to Employees and Sales Representatives of Association Members]

- Rules Concerning Employees of Association Members
- Detailed Rules Related to the Procedures of Handling Perpetrator of Inappropriate Acts Prescribed in Chapter IV of the Rules Concerning Employees of Association

Members

- Rules Concerning Sale and Purchase, Etc. of Specified Securities, Etc. of Listed Companies, Etc. by Employees of Association Members
- Rules Concerning Qualification and Registration, Etc. of Sales Representatives of Association Members
- Detailed Rules Relating to the Rules Concerning Qualification and Registration, Etc. of Sales Representatives of Association Members
- Rules Concerning Qualification Examination for Sales Representatives, Etc.

[Relating to Advertising]

- Rules Concerning Representation of Advertising, Etc. and Offer of Premiums
- Rules Concerning Handling of Analyst Reports

[Relating to Personal Information Protection]

- Guideline for Protection of Personal Information
- Rules Concerning Securement of Proper Handling of Personal Information by Association Members
- Rules Concerning Complaint Processing Operation Related to Handling of Personal Information

[Relating to Stocks]

- Rules Concerning Over-The-Counter Securities
- Rules Concerning Investment Crowdfunding
- Rules Concerning Stock Community
- Rules Concerning Green Sheet Issues and Phoenix Issues
- Detailed Rules Concerning Report to the Association on Company Information, Etc. by Companies, Etc. Issuing Green Sheet Issues and Phoenix Issues
- Detailed Rules Related to the Rules Concerning Green Sheet Issues and Phoenix Issues
- Rules Concerning Sale and Purchase, Etc. of the Listed Share Certificates, Etc. Conducted Outside of a Financial Instruments Exchange Market
- Detailed Rules Relating to the Rules Concerning Sale and Purchase, Etc. of the Listed Share Certificates, Etc. Conducted Outside of a Financial Instruments Exchange Market
- Rules Concerning Transaction Subject to Closing Price and Associated Proprietary Transactions
- Rules Concerning Handling of Cumulative Stock Investment and Mini Investment in Stocks
- Rules Concerning Handling for Borrowing and Lending Transactions of Share

Certificates, Etc.

- Rules Concerning Underwriting, Etc. of Securities
- Detailed Rules Relating to the Rules Concerning Underwriting, Etc. of Securities
- Rules Concerning Distribution to Customers Related to Underwriting, Etc. of Public Offering, Etc. of Share Certificates, Etc.
- Rules Concerning Handling of Allotment of New Shares to Third Party, Etc.

[Relating to Bonds]

- Rules Concerning Publication of Over-The-Counter Trading Reference Prices, Etc. and Trading Prices of Bonds
- Detailed Rules Relating to the Rules Concerning Publication of Over-The-Counter Trading Reference Prices, Etc. and Trading Prices of Bonds
- Rules Concerning Publication, Etc. of Over-The-Counter Quotation of Corporate Bonds, Etc. for Retail Customers
- Rules Concerning Solicitation, Etc. of Sale and Purchase, Etc. of Domestic CPs Etc. and Private Placement Corporate Bonds
- Rules Concerning Handling of Sale and Purchase of Bonds with Options
- Rules Concerning Handling of Conditional Sale and Purchase of Bonds, Etc.
- Rules Concerning Handling of Sale and Purchase of Bonds, Etc. with Delayed Settlement
- Rules Concerning Handling of Short Selling, and Borrowing and Lending Transactions of Bonds

[Relating to Foreign Products and Transactions]

- Rules Concerning Foreign Securities Transactions
- Rules Concerning Foreign Securities Futures Transactions, Etc.

[Relating to Securitized Products]

- Rules Concerning Distributions, Etc. of Securitized Products Standardized Information Reporting Package (SIRP) PDF/Excel

[Relating to Derivatives]

- Rules Concerning CFD Transactions
- Rules Concerning Binary Option Transactions

[Relating to Code of Ethics]

- Rules Concerning Maintenance of and Compliance with Ethical Code by Association Members

Supervision of Authorized Financial Instruments Firms Association

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Enterprise Compliance Specialist, Securities
Business Division
Financial Services Agency
15 April 2016

1

Supervision of Authorized Financial Instruments Firms Association

● Authorization of Establishment (Article67-2)

A Financial Instruments Business Operator who intends to establish an Authorized Association shall obtain an authorization from the Prime Minister.

● Prohibition of Pursuit of Profit (Article67-7)

An Authorized Association shall not conduct any business for profit.

● Matters Which Must be Stated in Articles of Incorporation (Article 67-8(1))

(x) matters related to preparation of rules

(xiv) matters related to investigation of Member Firms, etc.

● Dispositions Rendered to Member Firms (Article68-2)

An Authorized Association shall stipulate in its articles of incorporation that the Authorized Association shall impose a fine for default, order said Member Firm to suspend or limit the rights of a Member Firm or shall expel said Member Firm from the Authorized Association.

● Order for Production of Reports and Inspection (Article75)

When the Prime Minister finds it necessary and appropriate for the public interest or protection of investors, he/she may order to submit reports that will be helpful for understanding the business or property of said Authorized Association, or have the officials inspect the books and documents or other articles of said Authorized Association.

● Rescission(Revocation) of Authorization, etc. (Article74)

If the Prime Minister finds it necessary and appropriate for the public interest and protection of investors, he/she may rescind the authorization of its establishment, issue an order of suspension of all or part of its business, or issue an order to take necessary measures specified in the articles of incorporation or any other rules.

2

Self-Regulation

● Rulemaking

Enactment, revision, or repeal of rules are decided at Self-regulation Board. (Please see attached sheet for current self-regulation rule)

● Inspection

Inspection of Regular Members and Special Members

※Cooperation with SESC and TSE (Japan Exchange Regulation)

● Disciplinary Action

Disciplinary action against member firm or employee with regard to violations of laws and regulations.

※Other than above, disciplinary action against sales representative delegated by law.

● Activities to promote public awareness

Seminar, publication material, dispatch of lecturer, etc.

※Furthermore, SROs focus on school education

3

Registration affairs concerning a Sales Representative

Qualification Examination for the Sales Representative	Registration of the Sales Representative			Disciplinary Action against the Sales Representative		
	New Registration	Change of Registration	Deletion of Registration	Revocation of Registration	Business Suspension of up to two years	(Note) An Association Member must not have a person who is treated as the perpetrator conduct the Business of Sales Representative

※Refusal of Registration: The persons whose registrations as Sales Representatives was revoked, and for whom it is less than five years since the date of revocation.

※Type of Sales Representative: Class-1 Sales Representative, Margin Transaction Sales Representative, Class-2 Sales Representative, Special Member's Class-1 Sales Representative, Special Member's Class-2 Sales Representative, Special Member's Class-4 Sales Representative

※Registered Sales Representatives require to take the training course for Renewal of the Sales Representative Qualification every five years.

4



Thank you

Supervision systems of Financial Instruments Markets

2016/4/15

JFSA

1.Trading Value of each Financial Instruments Exchange

Trading Value (2015)				
	Tokyo Stock Exchange, Inc.	Nagoya Stock Exchange, Inc.	Sapporo Securities Exchange *1	Fukuoka Stock Exchange *1
¥billion	748,567	132	70	20
\$billion	6,500	1	0.6	0.1
Ratio	99.970%	0.018%	0.009%	0.003%

*1 Financial Instruments Membership Corporations

Number of Listed Companies (As of the end of 2015)				
	Tokyo Stock Exchange, Inc.	Nagoya Stock Exchange, Inc.	Sapporo Securities Exchange *1	Fukuoka Stock Exchange *1
	3,502	295	57	112
Ratio	88.3%	7.4%	1.4%	2.8%

*1 Financial Instruments Membership Corporations

2. Financial Instruments and Exchange Act (Act No. 25 of April 13, 1948)

Chapter V Financial Instruments Exchange

- Section 1 General Provisions (Article 80 - Article 87-9)
- Section 2 Financial Instruments Membership Corporation and Self-Regulation Organization; and Stock Company Which Establishes Financial Instruments Exchange Market (Article 88 - Article 109)
 - Subsection 1 Financial Instruments Membership Corporation (Article 88 - Article 102)
 - Subsection 1-2 Self-Regulation Organization (Article 102-2 - Article 102-39)
 - Subsection 2 Stock Company which Establishes Financial Instruments (Article 103 - Article 109)
- Section 3 Sales and Purchase of Securities, etc. in Financial Instruments (Article 110 - Article 133)
- Section 4 Dissolution, etc. of Financial Instruments Exchange (Article 134 - Article 147)
- Section 5 Supervision (Article 148 - Article 153-4)
- Section 6 Miscellaneous Provisions (Article 154 and Article 154-2)

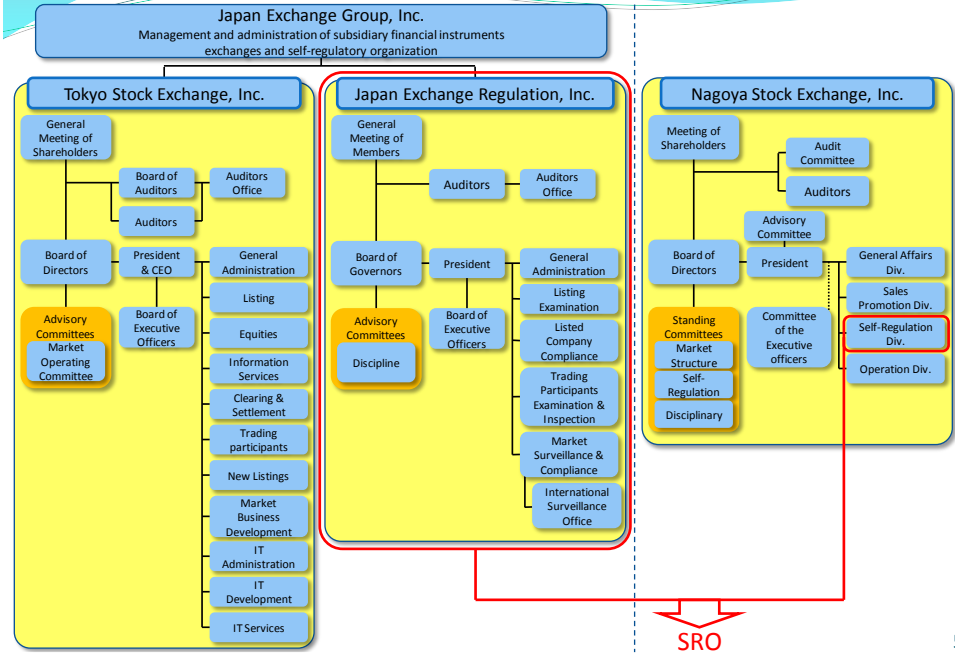
2

Subsection 1 Financial Instruments Membership Corporation	Subsection 1-2 Self-Regulation Organization	Subsection 2 Stock Company Which Establishes Financial Instruments Exchange Markets
<p>Division 1 Establishment</p> <p>Article 88 (Juridical Personality) Article 88-2 (Founder) Article 88-3 (Articles of Incorporation) Article 88-4 (Organizational Meeting) Article 88-5 (Voting Rights of Prospective Members) Article 88-6 (No Voting Rights) Article 88-7 (Handing Over of Affairs to President) Article 88-8 (Change of Articles of Incorporation) Article 88-9 (Capacity to Commit Tortious Act, etc.) Article 88-10 (Address) Article 88-11 (Inventory of Assets and Directory of Members) Article 88-12 (Restrictions on Authority of Representation of Board Members) Article 88-13 (Conflicts-of-Interest) Article 88-14 (Ordinary General Meetings) Article 88-15 (Extraordinary General Meeting) Article 88-16 (Convocation of General Meetings) Article 88-17 (Execution of Business) Article 88-18 (Matters for Resolution of General Meeting) Article 88-19 (Voting Rights of Members) Article 88-20 (No Voting Rights) Article 88-21 (Jurisdiction over Appointment of Special Agent) Article 88-22 (Application Mutatis Mutandis of Companies Act)</p> <p>Division 2 Registration</p> <p>Article 89 (Establishment) Article 89-2 (Registration) Article 89-3 (Registration in District of Location of Secondary Offices) Article 89-4 (Registration of Relocation of Office) Article 89-5 (Registration of Change) Article 89-6 (Registration of Provisional Disposition to Suspend Execution of Duties, etc.) Article 89-7 (Jurisdiction of Registration) Article 89-8 (Application for Registration of Establishment) Article 89-9 (Documents to be Attached to Application for Registration of Change) Article 90 (Application Mutatis Mutandis of Commercial Registration Act, etc.)</p> <p>Division 3 Members</p> <p>Article 91 (Qualification of Members) Article 92 (Contribution and Liability) Article 93 (Transfer of Equity) Article 94 (Voluntary Withdrawal) Article 95 (Statutory Withdrawal) Article 96 (Refund of Equity)</p> <p>Division 4 Administration</p> <p>Article 97 (Restriction on Business) Article 98 (Appointment of Officers, etc.) Article 99 (Duties of Officers)</p>	<p>Division 1 Establishment</p> <p>Article 102-2 (Juridical Personality) Article 102-3 (Founder) Article 102-4 (Articles of Incorporation) Article 102-5 (Organizational Meeting) Article 102-6 (Provisions Applied Mutatis Mutandis)</p> <p>Article 102-7 (Application Mutatis Mutandis of Companies Act)</p> <p>Division 2 Registration</p> <p>Article 102-8 (Establishment) Article 102-9 (Registration) Article 102-10 (Application Mutatis Mutandis of Provisions Regarding Registration Procedure)</p> <p>Article 102-11 (Application Mutatis Mutandis of Commercial Registration Act, etc.)</p> <p>Division 3 Membership</p> <p>Article 102-12 (Qualification of Members) Article 102-13 (Provisions Applied Mutatis Mutandis)</p> <p>Division 4 Self-Regulation Related Services</p> <p>Article 102-14 (Self-Regulation Related Services by Self-Regulation Organization) Article 102-15 (Application for Authorization) Article 102-16 (Criteria for Authorization) Article 102-17 (Application Mutatis Mutandis of Provision Concerning Hearing) Article 102-18 (Entrusted Services) Article 102-19 (Prohibition of Re-entrustment) Article 102-20 (Termination of Entrustment Relations)</p> <p>Division 5 Administration</p> <p>Article 102-21 (Restriction on Services) Article 102-22 (Scope of Services) Article 102-23 (Appointment of Officers, etc.) Article 102-24 (Duties, etc. of Officers) Article 102-25 (Term of Office, etc. of Board Members) Article 102-26 (Attendance at Board of Directors Meetings by Board Members) Article 102-27 (Holding of Council) Article 102-28 (Request for Convocation of Council) by Board Members)</p>	<p>Division 1 General Provisions</p> <p>Article 103 (Articles of Incorporation) Article 103-2 (Restrictions on Holdings of Voting Rights) Article 103-3 (Submission of Notification of Holding Subject Voting Rights) Article 103-4 (Order for Production of Report and Inspection for Person Who Submits Notification of Holding Subject Voting Rights) Article 104 (Public Inspection of Total Number of Issued Shares, etc.) Article 104-2 (Sightability, etc. of Directors, etc.) Article 105 (Authorization for Reduction of Capital, etc.) Article 105-2 (Special Provisions for Officers) Article 105-3 (Request for Investigation by Court)</p> <p>Division 2 Self-Regulating Committee</p> <p>Article 105-4 (Authority, etc.) Article 105-5 (Organization) Article 105-6 (Term of Office) Article 105-7 (Removal from Positions, etc.) Article 105-8 (Election and Dismissal of Directors) Article 105-9 (Handling of Emergent Cases) Article 105-10 (Enjoinment of Acts of Executive Officers or Directors) Article 105-11 (Treatment of Change in Operational Rules, etc.) Article 105-12 (Convener) Article 105-13 (Request for Convocation) Article 105-14 (Convocation Procedures) Article 105-15 (Resolution) Article 105-16 (Minutes) Article 105-17 (Omission of Report) Article 105-18 (Public Inspection) Article 106 (Decisions on Execution of Duties of Self-Regulating Committee) Article 106-2 (Attendance of Company Auditors, etc.)</p> <p>Division 3 Major Shareholders</p> <p>Article 106-3 (Authorization, etc.) Article 106-4 (Criteria for Authorization) Article 106-5 (Application Mutatis Mutandis of Provisions Regarding Refusal, etc. of Authorization) Article 106-6 (Order for Production of Report and Inspection) Article 106-7 (Disposition for Supervision) Article 106-8 (Lapse of Authorization) Article 106-9 (Application Mutatis Mutandis of Provisions Regarding Subject Voting Rights)</p> <p>Division 4 Financial Instruments Exchange Holding Company</p> <p>Article 106-10 (Authorization, etc.) Article 106-11 (Application for Authorization) Article 106-12 (Criteria for Examination for Authorization) Article 106-13 (Application Mutatis Mutandis of Provisions Regarding Refusal, etc. of Authorization) Article 106-14 (Limitation on Holding of Voting Rights) Article 106-15 (Submission of Notification of Holding Subject Voting Rights) Article 106-16 (Order for Production of Report and Inspection for Person Who Submits Notification of Holding Subject Voting Rights) Article 106-17 (Authorization, etc. Pertaining to Major Shareholders) Article 106-18 (Criteria for Authorization Concerning Major Shareholders) Article 106-19 (Application Mutatis Mutandis of Provisions Regarding Refusal, etc. of Authorization) Article 106-20 (Order for Production of Report and Inspection for Major Shareholders) Article 106-21 (Dispositions Rendered to Major Shareholders for Purpose of Supervision) Article 106-22 (Loss of Authorization Regarding Major Shareholders) Article 106-23 (Scope of Business) Article 106-24 (Scope of Subsidiary Company) Article 106-25 (Application Mutatis Mutandis of Provisions Regarding Refusal, etc. of Authorization) Article 106-26 (Recession of Authorization) Article 106-27 (Order for Production of Report and Inspection)</p>

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<p>Division 5 Dissolution</p> <p>Article 100 (Causes for Dissolution) Article 100-2 (Distribution of Residual Assets) Article 100-3 (Period of Registration of Dissolution) Article 100-4 (Registration of Completion of Liquidation) Article 100-5 (Documents to be Attached to Application for Registration of Dissolution) Article 100-6 (Documents to be Attached to Application for Registration of Completion of Liquidation) Article 100-7 (Commencement of Bankruptcy Proceedings) Article 100-8 (Financial Instruments Membership Corporation in Liquidation) Article 100-9 (Appointment of Liquidator by Court) Article 100-10 (Dismissal of Liquidators) Article 100-11 (Duties and Authority of Liquidator) Article 100-12 (Requests, etc. for Filing of Claims) Article 100-13 (Filing of Claims after Lapse of Period) Article 100-14 (Commencement of Bankruptcy Proceedings of Financial Instruments Membership Corporations in Liquidation) Article 100-15 (Supervision by Court) Article 100-16 (Filing of Completion of Liquidation) Article 100-17 (Application Mutatis Mutandis of Companies Act) Article 100-18 (Jurisdiction of Cases Regarding Liquidators) Article 100-19 (Appeal on Judicial Decision For Appointment of Liquidators) Article 100-20 (Remuneration of Liquidators) Article 100-21 (Dismissal of Liquidator) Article 100-22 (Appointment of Inspector) Article 100-23 (Request for Investigation, etc. by Court) Article 100-24 (Capacity of Liquidators to Commit Tortious Acts) Article 100-25 (Application Mutatis Mutandis of Commercial Registration Act)</p> <p>Division 6 Entity Conversion</p> <p>Article 101 (Entity Conversion from Membership-Type Financial Instruments Exchange into Stock Company-Type Financial Instruments Exchange) Article 101-2 (Entity Conversion Plan) Article 101-3 (Keeping and Inspection, etc. of Documents, etc. Concerning Entity Conversion Plan) Article 101-4 (Objection by Creditors) Article 101-5 (Keeping and Inspection, etc. of Documents, etc. on Progress, etc. of Entity Conversion Procedures) Article 101-6 (Allotment of Shares to Member) Article 101-7 (Amount to be Included in Stated Capital) Article 101-8 (Amount to be Included in Capital Reserve, etc.) Article 101-9 (Issuance of Shares upon Entity Conversion) Article 101-10 (Application, etc. for Shares Issued upon Entity Conversion) Article 101-11 (Allotment of Shares Issued upon Entity Conversion) Article 101-12 (Subscription for Shares Issued upon Entity Conversion) Article 101-13 (Performance of Contribution) Article 101-14 (Timing of Shareholder Status) Article 101-15 (Restriction on Invalidation or Rescission of Subscription) Article 101-16 (Contribution of Property Other than Money) Article 101-17 (Authorization for Entity Conversion) Article 101-18 (Criteria for Authorization) Article 101-19 (Coming into Effect of Entity Conversion) Article 101-20 (Registration) Article 102 (Action Seeking Invalidation of Entity Conversion)</p>	<p>Article 102-29 (Convocation Procedures of Council) Article 102-30 (Resolution of Council) Article 102-31 (Minutes) Article 102-32 (Treatment of Change in Operational Rules, etc.) Article 102-33 (Advice on Necessary Measures by Council) Article 102-34 (Report on Business to Council)</p> <p>Division 6 Dissolution</p> <p>Article 102-35 (Causes for Dissolution of Self-Regulation Organization) Article 102-36 (Application Mutatis Mutandis of Provisions Regarding Dissolution Procedures)</p> <p>Article 102-37 (Application Mutatis Mutandis of Companies Act)</p> <p>Article 102-38 (Capacity of Liquidators to Commit Tortious Acts, etc.) Article 102-39 (Application Mutatis Mutandis of Commercial Registration Act)</p>	<p>Article 106-28 (Dispositions Rendered for Purpose of Supervision) Article 107 (Loss of Authorization) Article 108 (Application Mutatis Mutandis of Provisions Regarding Subject Voting Rights) Article 109 (Application Mutatis Mutandis of Provisions Regarding Dispositions Rendered for Purpose of Supervision)</p>
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3. Organization chart of TSE and NSE



4. Definition of Self-Regulation Related Services

○ Financial Instruments and Exchange Act

- ① **Business related to listing and delisting of financial instruments**
(article84, paragraph2, item(i))
- ② **Investigation of the status of observance by the member of the law**
(article84, paragraph2, item(ii))

○ Cabinet Office Ordinance concerning financial instrument market

- ① **Examinations of securities trading** (article7, item(i))
- ② **Examination of qualification for members** (article7, item(ii))
- ③ **Disciplinary action against members** (article7, item(iii))
- ④ **Examination on information disclosure** (article7, item(iv))

6

4.(reference) Laws and regulations regarding Self-Regulation Related Services

○Financial Instruments and Exchange Act

Article84 (Self-Regulation Related Services)

(2) The term "Self-Regulation Related Services" set forth in the preceding paragraph shall mean the following services conducted in relation to a Financial Instruments Exchange:

- (i) Business related to listing and delisting of financial instruments, Financial Indicators and Options
- (ii) Investigation of the status of observance by the Member, etc. of the laws and regulations, dispositions given by government agencies based on laws and regulations, or the articles of incorporation or other rules, or the fair and equitable principles of transactions.
- (iii) Other business specified by a Cabinet Office Ordinance as that which may be necessary for ensuring fairness in transactions on a Financial Instruments Exchange Market.

○Cabinet Office Ordinance concerning financial instrument market

Article7 The business specified by Cabinet Office Ordinance, as referred to in Article 84, paragraph(2), item (iii) of the act, shall be as follows:

- (i) Detailed Examinations of securities trading or market derivatives trading carried out by the members, etc. in the exchange financial instruments market (excluding examination instantaneously carried out for expediting securities trading or market derivatives trading in the exchange financial instruments market)
- (ii) Examination of qualifications of the members, etc.
- (iii) Operations related to disposition and any other measures against the members, etc.
- (iv) Examinations on information disclosure by the issuer of listed securities with regard to the issuer, and operations regarding disposition and other measures to be taken against the issuer of listed securities

7

5-1. Legal structure of Financial Instruments Exchange

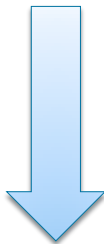
(1) A person who wants to establish a Financial Instruments Market has to obtain a license from the Prime Minister. (Article 80)



(Licensing)

Article 80 (1) With the exception of an Authorized Financial Instruments Business Association, a person must not operate a Financial Instruments Market unless it is licensed by the Prime Minister.

(2) A person who intends to obtain a license shall submit an application for license containing the the articles of incorporation, the operational rules, and the brokerage contract rules. (Article 81(2))



(Application for License)

Article 81 (1) A person seeking the license referred to paragraph (1) of the preceding Article must submit a written license application to the Prime Minister, in which the person states the following particulars:
 (2) The articles of incorporation, the operational rules, the brokerage contract rules, and other documents specified by a Cabinet Office Ordinance shall be attached to the application for license under the preceding paragraph.

※Matters to Be Stated in Operational Rules (Article 117)

○Trading Participant Regulations ○Clearing and Settlement Regulations ○Margin/Loan Trading Regulations ○Securities Listing Regulations

※Brokerage Contract Rules and Matters to Be Stated Therein (Article 133)

○The conditions for becoming entrusted with the purchase and sale of Securities, etc.
 ○Clearing and Settlement Regulations

8

5-2. Legal structure of Financial Instruments Exchange

(3) A Financial Instruments Exchange needs to conduct the Self-Regulation Related Services. (Article 84)

A Financial Instruments Exchange can entrust all or part of the Self-Regulation Related Services to a Self-Regulation Organization. (Article 85)



(Self-Regulatory Services)

Article 84 (1) A Financial Instruments Exchange must perform Self-Regulatory Services in an appropriate manner, in accordance with this Act and with its articles of incorporation and other rules, in order to ensure the fair purchase and sale of Securities and Market Transactions of Derivatives on the Financial Instruments Exchange Market, as well as to protect investors.

(2) The term "Self-Regulatory Services" as used in the preceding paragraph means the following services conducted in respect of a Financial Instruments Exchange:

- (i) services related to the listing and delisting of Financial Instruments, Financial Indicators, and Options;
- (ii) the investigation of Members', etc. compliance with laws and regulations, dispositions by government agencies which are based on laws and regulations, with the articles of incorporation and other rules, and with the principle of good faith in transactions; and
- (iii) other services specified by Cabinet Office Ordinance as necessary for ensuring fairness in transactions on a Financial Instruments Exchange Market.

(Entrustment of Self-Regulatory Services)

Article 85 (1) With the authorization of the Prime Minister, a Financial Instruments Exchange may entrust the whole or part of the Self-Regulatory Services of the Financial Instruments Exchange to a self-regulatory organization.

9

5-3. Legal structure of Financial Instruments Exchange

(4) And a Financial Instruments Exchange needs to follow the regulations below. (Article 148 - Article 153)

① Rescission of License (Article 148)

(Rescission of a License)

Article 148 If a Financial Instruments Exchange is discovered to have fallen under one of the categories in the items of Article 82, paragraph (2) at the time it obtained its license, **the Prime Minister may rescind its license.**

② Authorization, etc. of Amendment of Articles of Incorporation, etc. (Article 149)

(Authorization to Change the Articles of Incorporation)

Article 149 (1) **A Financial Instruments Exchange must obtain the authorization of the Prime Minister if it seeks to change its articles of incorporation, operational rules, or brokerage contract rules.**

(2) **If a particular set forth in Article 81, paragraph (1), item (ii) or (iii) changes, the Financial Instruments Exchange must notify the Prime Minister of this** without delay. The same applies if the rules of a Financial Instruments Exchange are prepared, if they change, or if they are discontinued, or if all business conducted with the authorization referred to in the proviso to Article 87-2, paragraph (1) is discontinued.

10

5-4. Legal structure of Financial Instruments Exchange

③ Dismissal of Officers (Article 150)

(Dismissal of Officers)

Article 150 (1) If the Prime Minister discovers that a person has become the officer of a Financial Instruments Exchange by wrongful means, or if the officer of a Financial Instruments Exchange violates a law or regulation, the articles of incorporation, or a disposition by a government agency which is based on a law or regulation, **the Prime Minister may order the Financial Instruments Exchange to dismiss that officer.**

④ Order for Production of Report and Inspection (Article 151)

(Collection of Reports and Inspections)

Article 151 **Whenever the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may order a Financial Instruments Exchange, its Subsidiary Company, an Issuer of Securities listed on a Financial Instruments Exchange, or the person that a Financial Instruments Exchange has entrusted with its business, to submit reports or materials that should serve as a reference with regard to the business or assets of the Financial Instruments Exchange or its Subsidiary Company, or may have the relevant officials inspect the state of the business or assets, or the books and documents or any other articles, of a Financial Instruments Exchange, its Subsidiary Company, or the person that a Financial Instruments Exchange has entrusted with its business.**

11

5-5. Legal structure of Financial Instruments

Exchange

⑤ Disposition Rendered to a Financial Instruments Exchange for Purpose of Supervision (Article 152)

Rescission of Registration
or
Business Suspension Orders

a. When it violates a law or regulation, a disposition by a government agency which is based on a law or regulation, or the articles of incorporation or any other rules

b. When the conduct of the Financial Instruments Exchange, etc. is found to be harmful to the public interest or to the protection of investors

(Supervisory Measures for Financial Instruments Exchanges)
Article 152 (1) If a Financial Instruments Exchange falls under a case specified in one of the following items and the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors, the Prime Minister may issue the disposition provided for in the relevant item:
(i) if it violates a law or regulation, a disposition by a government agency which is based on a law or regulation, (omitted) or the articles of incorporation or any other rules; or, even though a Member, etc. or an issuer of Securities listed by a Financial Instruments Exchange has violated a law or regulation, a disposition by a government agency which is based on a law or regulation, or the Financial Instruments Exchange's articles of incorporation, operational rules, brokerage contract rules, or any other rules (hereinafter referred to as "Laws and Regulations, etc." in this item), or has engaged in an act that is contrary to the principle of good faith in transactions as specified in the articles of incorporation or any other rules, the Financial Instruments Exchange fails to exercise the powers accorded it under this Act, an order based on this Act, or its articles of incorporation or any other rules, or to take any other necessary measures to cause the person to observe the Laws and Regulations, etc. or the principle of good faith in transactions:
* rescinding the license referred to in Article 80, paragraph (1), ordering the suspension of all or a part of its business activities during a fixed period of no longer than one year, ordering a change in its business activities, issuing an order prohibiting a part of its business activities, ordering the dismissal of its officers, or ordering the Financial Instruments Exchange to take the necessary measures specified in the articles of incorporation or any other rules;
(ii) if the conduct of the Financial Instruments Exchange, or the status of purchase and sales of Securities or Market Transactions of Derivatives on a Financial Instruments Exchange Market operated by the Financial Instruments Exchange, is found to be harmful to the public interest or to the protection of investors:
* ordering the suspension of all or a part of purchase and sales of Securities or Market Transactions of Derivatives on the Financial Instruments Exchange Market during a fixed period of no longer than 10 days, or, subject to a cabinet decision, ordering the suspension of all or a part of its business during a fixed period of no longer than three months;

⑥ Order to Improve Business Operation (Article 153)

(Business Improvement Orders)
Article 153 If the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors as concerns a Financial Instruments Exchange's articles of incorporation, operational rules, brokerage contract rules, other rules, or its trade practices, or as concerns its business operations or the state of its assets, the Prime Minister, within the scope of this necessity, may order the Financial Instruments Exchange to change its articles of incorporation, operational rules, brokerage contract rules, other rules, or its trade practices, or to take measures that are necessary from a supervisory perspective. 12

6-1. Cases in which administrative action has been taken (Insufficient listing examination)

May 24, 2004, Business Improvement Administrative Order against Tokyo Stock Exchange

- ARDEPRO co., Ltd. (house agent) has its license (building lots and buildings transaction business) revoked shortly after being listed, and was unable to operate its primary business.
- When conducting the listing examination of ARDEPRO, TSE failed to conduct the proper check on the license status.
- And TSE didn't take sufficient measures to inform investors of this fact.
- FSA issued business improvement order pursuant to the provision of article 153 of the act.

Article 153 When the Prime Minister finds it necessary and appropriate with regard to a Financial Instruments Exchange's articles of incorporation, operational rules, brokerage contract rules or any other rules or trade practice, of a Financial Instruments Exchange or its business operation or the status of its property for the public interest or protection of investors, he/she may order the Financial Instruments Exchange to change its articles of incorporation, operational rules, brokerage contract rules or any other rules or trade practice, or to take other necessary measures for supervision, within the limit necessary.

Business Improvement Administrative Order against Tokyo Stock Exchange

May 24, 2004
Financial Services Agency

1. ARDEPRO Co., Ltd. ("ARDEPRO"), which was listed on the Mothers section of the Tokyo Stock Exchange ("TSE") on March 18, 2004, had its license for building lots and buildings transaction business revoked by the Tokyo Metropolitan Government on April 8, shortly after being listed, and was thus unable to engage in the business of selling existing apartments, which is its primary business.
2. The following problems were identified as a result of confirming how listing examination and listing supervision was conducted by TSE with respect to ARDEPRO.
 - (1) As ARDEPRO is primarily engaged in the business of selling existing apartments, it needs to be licensed for building lots and buildings transaction business. When conducting the listing examination of ARDEPRO, confirmation is deemed necessary in regard to the term of validity stipulated in Article 3 of the Building Lots and Buildings Transaction Business Law (Law No.176, 1952) and whether or not there are reasons for revoking the license under the provision of Article 66 of the Law. However, no such procedures were taken during the listing examination by TSE.
 - (2) ARDEPRO had its license revoked on April 8, shortly after being listed on the Mothers section. Since then, it could not engage in the business of selling existing apartments, which is its primary business, until it was issued a new license on May 21. However, TSE did not take sufficient measures to inform investors of this fact.
3. Although these acts do not violate the Securities and Exchange Law or regulations of the Tokyo Stock Exchange, they may undermine the confidence of investors. TSE's listing examination and listing supervision framework must therefore be corrected promptly.
4. Accordingly, TSE was ordered to make the following business improvements and to report on the situation by June 18, 2004 under the provision of the first paragraph of Article 153 of the Securities and Exchange Law.
 - (1) In cases where a company applying for a listing is required to keep business license from a government ministry or agency to run its primary business, it is necessary to confirm the term of validity of the license and whether or not there are reasons for revoking the license, and take measures to protect investors, such as properly asking the listed company to disclose the confirmed information. TSE must review the listing examination framework and establish a framework for taking such measures.
 - (2) In cases where the listed company cannot run its primary business, it is necessary to take measures to alert investors, such as assigning it to the supervision post in a timely and appropriate manner. TSE must review the listing control framework and establish a framework for taking such measures.
 - (3) Other measures to improve the situation must also be taken as deemed necessary by TSE, in consideration of this latest problem.
5. Others
TSE was ordered to provide a report on the following matters regarding its responses up to this point, in addition to the status of business improvement over the issues mentioned above.
 - (1) A detailed account of the listing examination, regarding the forecasts for ARDEPRO's future business operations. In particular, the reasons for not confirming the term of validity of its license and that it did not correspond to reasons for revoking the license.
 - (2) A detailed account of TSE's responses after learning that ARDEPRO's license was revoked. In particular, the reasons why it was not assigned to the supervision post.

14

6-2. Cases in which administrative action has been taken (Insufficient IT management system)

Aug 24, 2012, Business Improvement Administrative Order against Tokyo Stock Exchange

- TSE derivative trading system was down from 9:18 am to 10:55 am on August 7, 2012.
- TSE also had same trouble on February 2, 2012. Its management system was insufficient.
- FSA issued business improvement order pursuant to the provision of article 153 of the act.



15

Cooperation with SROs

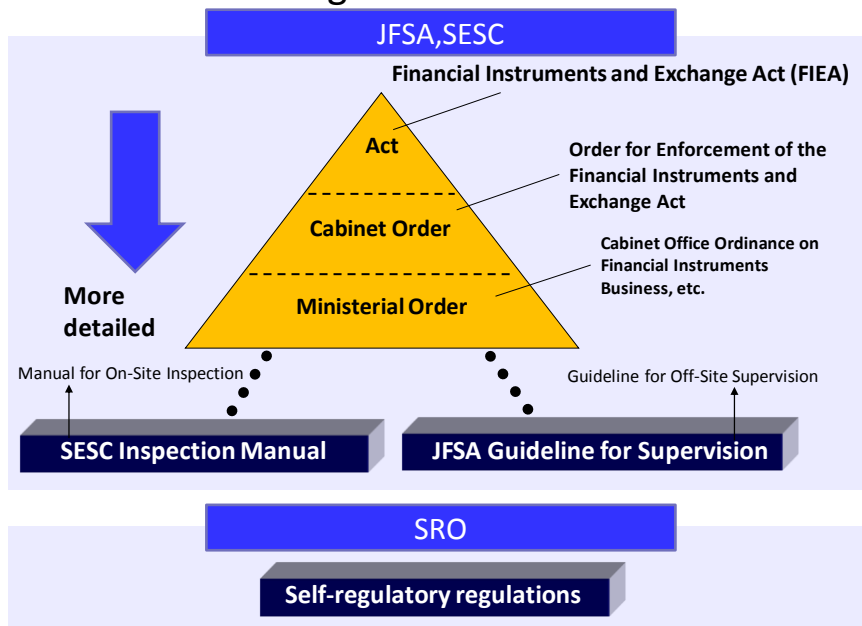
Securities and Exchange Surveillance Commission

15 April, 2016

Kaoru Murakami

Deputy Director for Coordination Division

Legal Framework



1. Cooperation with SROs regarding inspection

(1) State of implementation of inspections in FY 2014

	SESC	JSDA	Japan Exchange Regulation (Tokyo stock exchange)
Number of companies	280 (Type I business operator)	255 (Member broker)	94 (General Trading Participants)
Number of companies inspected	77	84	30
Legal grounds	◎Financial Instruments and Exchange act Article 56-2	◎Financial Instruments and Exchange act Article 67-8(1)(xiv)	◎Financial Instruments and Exchange act Article 84(2)(ii), 88-3(2)(vi)
Internal regulation		◎Articles Of Incorporation Article 7 (1)(viii)	◎Trading Participant Regulations Article 19
Department	Inspection division	Inspection HQ	Trading Participants Examination & Inspection

2

<p>Financial Instruments and Exchange act</p> <p>(Order for Production of Report and Inspection)</p> <p>Article 56-2 (1)When the Prime Minister finds it necessary and appropriate for the public interest or protection of investors, he/she may order a Financial Instruments Business Operator, etc. a person who conducts transactions with the Financial Instruments Business Operator, etc., a Bank, etc., the majority of whose Voting Rights Held by All the Shareholders, etc. are held by the Financial Instruments Business Operator, etc., a Holding Company which holds the Financial Instruments Business Operator, etc. as its Subsidiary Company, or a person who received entrustment of business from the Financial Instruments Business Operator, etc. to submit reports or materials that will be helpful for understanding the business or property of the Financial Instruments Business Operator, etc., or have the officials inspect the status of the business or property, or the books and documents or other articles of the Financial Instruments Business Operator, etc., the Subsidiary Specified Juridical Person, the Holding Company which holds the Financial Instruments Business Operator, etc. as its Subsidiary Company, or the person who received entrustment of business from the Financial Instruments Business Operator, etc.</p> <p>(Matters Which Must be Stated in Articles of Incorporation)</p> <p>Article 67-8 (1) The articles of incorporation of an Authorized Association shall contain the following matters: (xiv) matters related to investigation of the status of observance of laws and regulations, dispositions given by government agencies based on laws and regulations, or the articles of incorporation or other rules, or the fair and equitable principles of transactions by Member Firms and Financial Instruments Intermediary Service Providers;</p> <p>(Self-Regulation Related Services)</p> <p>Article 84 (1) A Financial Instruments Exchange shall properly conduct the Self-Regulation Related Services in accordance with this Act, its articles of incorporation and other rules in order to ensure fair sales and purchase of Securities and Market Transactions of Derivatives on the Financial Instruments Exchange Market, as well as to protect investors. (2) The term "Self-Regulation Related Services" set forth in the preceding paragraph shall mean the following services conducted in relation to a Financial Instruments Exchange: (ii) investigation of the status of observance by the Member, etc. of the laws and regulations, dispositions given by government agencies based on laws and regulations, or the articles of incorporation or other rules, or the fair and equitable principles of transactions</p> <p>(Articles of Incorporation)</p> <p>Article 88-3 (1) In order for a Financial Instruments Incorporated Association to be incorporated, the founders must prepare articles of incorporation, and all founders must sign or have their names and seals affixed thereto. (2) The following particulars must be stated or recorded in the articles of incorporation of a Financial Instruments Incorporated Association: (vi) the particulars of investigations into Members', etc. compliance with laws and regulations, dispositions by government agencies which are based on laws and regulations, the articles of incorporation and other rules, and the principle of good faith in their transactions;</p>
<p>Articles Of Incorporation (JSDA)</p> <p>(Businesses)</p> <p>Article 7 In order to accomplish the purpose of the preceding Article, the Association shall conduct the businesses set forth in each of the following Items: (viii) To investigate Association Members' and Financial Instruments Intermediary Service Providers' situation of observance of laws and regulations, disciplinary actions taken by administrative government offices pursuant to laws and regulations, or the Articles of Association and other rules or the good faith principles of transactions, and the situation of the business and property of Association Members;</p>
<p>Trading Participant Regulations (TSE)</p> <p>Rule 19. Investigation of Trading Participants</p> <p>1. In cases prescribed in each of the following items or in other cases where the Exchange deems it necessary in the light of operations of the Exchange market, the Exchange may require a trading participant to submit informational reports or materials concerning the business or assets of such trading participant, or inspect the actual status of such participant's business or assets, or books, documents or other objects:</p>

3



1.Cooperation with SROs regarding inspection

(2)State of implementation of inspections

- Each organization carries out inspections once every three years on average.
- SROs (such as TSE and JSDA) have opportunities to jointly carry out inspections to reduce the burden of securities companies as needed.

(SESC has never carried out a joint inspection with SROs.)

4



1.Cooperation with SROs regarding inspection

(3) Purpose of SROs inspection

(Stock exchange) Stock exchange carries out inspections focusing on compliance with the laws and **rules of stock exchange** regarding the following;

- Trading participants' **business process from the acceptance of orders to payment and settlement operations**

(JSDA) JSDA carries out inspections focusing on compliance with the laws and **rules of JSDA** regarding the following:

- Member brokers' **business stance and state of solicitation**

5

1.Cooperation with SROs regarding inspection

(4) Current status of cooperation

○ Report to SESC

The inspection results of SROs are reported to SESC as needed.

(In case where a serious problem is discovered, SROs report to SESC immediately.)

○ The timing of carrying out inspections

SESC and SROs arrange the timing of carrying out inspections not to overlap.

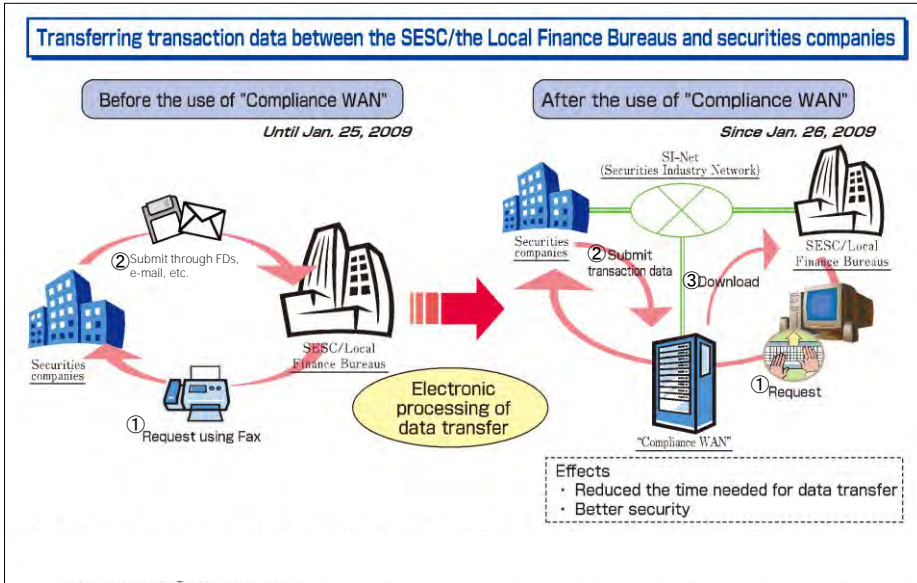
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2.Cooperation with SROs regarding market surveillance

(1) Respective roles in market surveillance

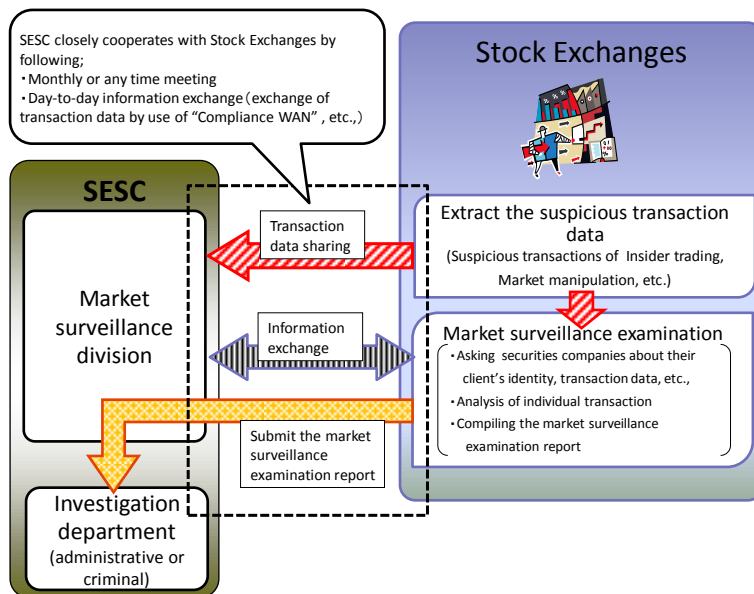
Situation \ Entity	SESC	SROs	Securities Companies
Real time		<ul style="list-style-type: none"> ✓ Market surveillance in real time (Stock Exchange) 	<ul style="list-style-type: none"> ✓ Monitor individual orders and transactions ✓ Give special attention and alert to get trader to stop the trade if any suspicious one is discovered
Ex-post	<ul style="list-style-type: none"> ✓ Ex-post market surveillance ✓ Enforcement 	<ul style="list-style-type: none"> ✓ Ex-post market surveillance (Stock Exchange) 	
Inspection	<ul style="list-style-type: none"> ✓ Inspect the monitoring and compliance system in securities companies and SROs 	<ul style="list-style-type: none"> ✓ Inspect the monitoring and compliance system in securities companies (member companies) 	

2.(2) The use of "Compliance WAN"



8

2.(3) Cooperation with Stock Exchanges in Market Surveillance Examination



9

2.(4) Obligation of securities companies to conduct trading examinations

Securities companies should conduct sufficient trading management and screening with regard to transactions based on laws and regulations.

○ Financial Instruments and Exchange Act

(Principle of Suitability)

Article 40 **A Financial Instruments Business Operator**, etc. shall engage in his/her business in such a manner that the state of the operation of the business **does not fall under any of the cases listed in the following items:**

(ii) in addition to what is specified in the preceding item, where there are **other circumstances specified by a Cabinet Office Ordinance** where the state of the operation of the business is likely to go against the public interest or hinder the protection of investors.

○ Cabinet Office Ordinance concerning financial instrument market

(The state of the operation of the business is likely to go against the public interest or hinder the protection of investors.)

Article 123 The status specified by Cabinet Office Ordinance, as referred to in Article 40, item (ii) of the Cabinet Order, shall be as follows:

(Xii) **The status which trading examinations with regard to transactions of Securities is not adequate.**

10

2.(4) Obligation of securities companies to conduct trading examinations

○ Inspection manual for Financial Instruments Business Operators

II-1-2. Structures and Systems / Inspection Items for Type I Financial Instruments Business Operators

1.(2) Development of Systems for Sales Management and Examination

(vii) **When a suspected case of insider trading is confirmed, have the results of sales examination**, including the contents of the measures if such measures were taken against said customer(s), **been reported to the SESC and self-regulatory organizations?**

○ Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc.

IV-3-2-3 Exercise of Checking Function against Investors

(1) Points of Attention Regarding Trading Management System for Prevention of Illegal Trading

(ii) Establishment of Trading Screening Criteria and Efficient Utilization Thereof

B. **Whether the securities company**, etc., **conducts appropriate trading management regarding selected issues by, for example, establishing specific screening criteria and taking measures necessary for preventing illegal trading practices**, such as market manipulation.

11

2.(5) Admission to JSDA

- ◆ Securities companies don't have any obligation to join the JSDA.
 - ◆ However, in cases where they don't join JSDA, they should establish internal rules equivalent to JSDA's Article of Incorporation, etc. and should develop the system to comply with internal rules.
- ⇒ Every securities company join JSDA at this time.

(Refusal of Registration)

Article 29-4 (1) The Prime Minister shall refuse registration when an applicant falls under any of the following items:

(iv) when a person intends to engage in Type I Financial Instruments Business, Type II Financial Instruments Business, or Investment Management Business: any of the following ;

(d) In cases where a person doesn't join association, it doesn't establish internal rules equivalent to Association's Article of Incorporation, etc. or doesn't develop the system to comply with the internal rule.

12

3. Relationship between the Laws and the Self-regulatory regulations

- Violation of the Self-regulatory regulations ≠ Violation of the Laws

Ways of thinking

- Making member companies to obey the Self-regulatory regulations is SROs' responsibility.

(Case study)

- In case SESC found the violation of the Self-regulatory regulations in its inspection.

⇒ Basically, SESC can't apply the laws.

⇒ However, SESC can apply article 51 depend on the substance.

(Order to Improve Business Operation to a Financial Instruments Business Operator)

Article 51 When **the Prime Minister finds it necessary** and appropriate for the public interest or protection of investors, **with regard to a Financial Instruments Business Operator's business operation, he/she may order said FIBOs to** change the methods of business or **take** other necessary **measures for improving its business operation.**

13

Capital Market Development in Myanmar

15 April 2016

Ryota Sugishita
JICA Consultant, Daiwa Institute of Research

1-1. Yangon Stock Exchange (YSX) opened on 9 Dec 2015



✓ YSX's opening ceremony was held on 9 Dec 2016, by U Win Shein, Finance Minister, and FSA's Commission Mr Nobuchika Mori, JPX's President Mr Koichiro Miyahara as well as Mr Daiwa Institute of Research's President Takashi Fukai.

✓ This is the first Japanese project to establish a stock exchange in overseas.



Source: Daiwa Institute of Research

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1-2. YSX started trading on 25 Mar 2016

- ✓ Trading at YSX started on 25 Mar 2016, with one stock called First Myanmar Investment
- ✓ 5 securities companies have been issued a license and in operation, including Myanmar Securities Exchange Centre (MSEC)



First trades



Ring the bell



MSEC counter



KBZ Sterling Securities

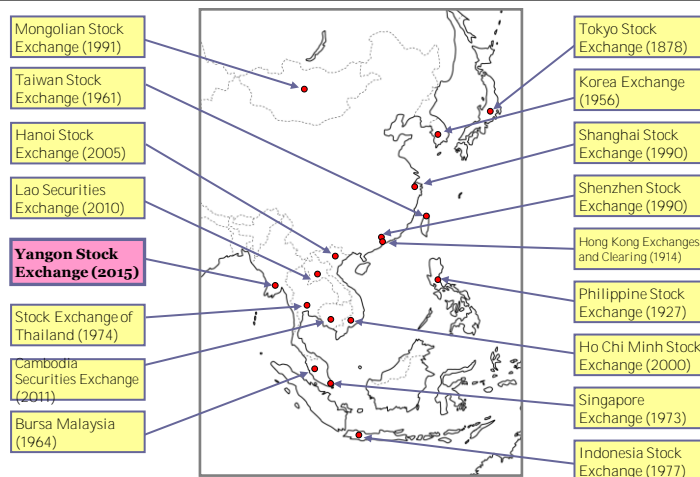
Source: Daiwa Institute of Research

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2. YSX is the last stock exchange in Asia

- ✓ The stock exchange is a core infrastructure for capital markets, providing opportunity in financing for corporates as well as building wealth for citizens.
- ✓ There are stock exchanges in Papua New Guinea, Bhutan and Maldives. Except for Myanmar, only Brunei and North Korea are countries without a stock exchange.



Source: Daiwa Institute of Research

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3-1. Milestone: 1993 – Daiwa started collaboration with Myanmar

Visited for the first time in 1993

- ✓ Chief Representative at Daiwa Institute of Research (DIR) Bangkok Office visited Myanmar early 1993 just for curiosity. He was warmly welcomed by the Myanmar government and was requested if Daiwa Securities Group could support in developing Myanmar's capital markets.
- ✓ Daiwa Securities Group management felt Myanmar had huge potential, when they visited Myanmar.
- ✓ Ministry of Economic Development and DIR signed an MOU in 1993 for cooperation in developing capital markets.

Japanese securities sector in early 90's

- ✓ After the collapse of the domestic stock market, Japanese securities companies eyed on growing Asian countries to promote Asian stocks to investors.
- ✓ Hong Kong and Singapore were the two main markets for Japanese investors, some investors also looked at Korea and Taiwan. The next markets would be Malaysia, Thailand, then China, Indonesia and the Philippines.
- ✓ In the long-run, Vietnam and Myanmar could be the following markets.

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3

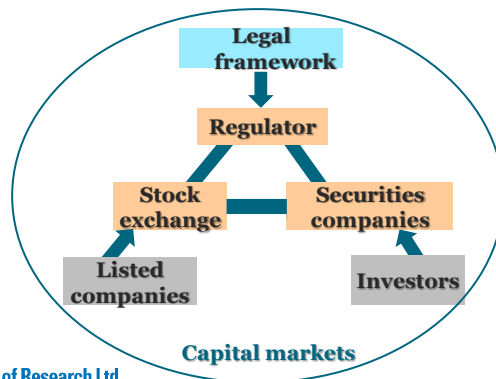
3-2. Milestone: 1996 – a joint venture company established

Myanmar Securities Exchange Centre

- ✓ Daiwa Institute of Research conducted study on Myanmar, by interviewing with major companies as well as potential investors. DIR also drafted Securities and Exchange Law, with help of a lawyer.
- ✓ In 1996, DIR and Myanma Economic Bank (MEB) established a 50-50 joint venture company called Myanmar Securities Exchange Centre.

MSEC's activities

- ✓ MSEC was regarded as the first securities company in Myanmar as well as an early stage company of a stock exchange.
- ✓ In 1997, MSEC started over-the-counter trades for Myanmar Forest Products Joint Venture (FPJVC), together with dividend payment service.
- ✓ FPJVC has been popular as a high-yield stock.



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3-3. Milestone : 1997-2008 – stagnation

Asian Financial Crisis

- ✓ The Asian Financial Crisis caused a plunge in share prices and foreign exchange rates for 1997-98 in many of Myanmar's neighboring countries.
- ✓ The Myanmar government became increasingly cautious about the capital markets.
- ✓ There was a plan of other over-the-counter stocks to be traded at MSEC, but all of them were cancelled.

Burma Sanctions Program by the U.S.

- ✓ In 1997, the Office of Foreign Assets Control (OFAC) under the U.S. Department of the Treasury implemented Burma Sanctions Program in 1997. As a result, most of foreign financial institutions withdrew from Myanmar.
- ✓ DIR faced difficulties to support Myanmar's capital market development.

3-4. Milestone : 2008 – reactivation of capital market development

Target to establish a stock exchange by 2015

- ✓ Although Myanmar was not able to enjoy foreign direct investment due to the sanctions, it gradually moved forward with democracy and economic development.
- ✓ After the ASEAN Economic Community Blueprint was announced in 2007, apparently Myanmar began to think it needed a stock.
- ✓ Capital Market Development Committee was set up in 2008. A capital market roadmap prepared by the committee targeted at establishing a stock exchange by 2015.
- ✓ MSEC started to trade Myanmar Citizens Bank's shares over-the-counter in 2008, which was the second counter at MSEC.

3-5. Milestone : 2010 – Tokyo Stock Exchange joined

Two decisions

- ✓ We expected for Myanmar to be motivated for accelerating capital market development, when it was officially announced that General Election would be held on Nov 2010. In fact, we were asked by the Central Bank of Myanmar (CBM) if we were able to support for establishing a stock exchange.
- ✓ We asked Tokyo Stock Exchange Group (now JPX) for help to jointly establish YSX.
- ✓ We also decided to renew our JV agreement with MEB for MSEC.

Competing with KRX

- ✓ Korea Exchange(KRX) was in collaboration to set up and operate a stock exchange in Lao PDR and Cambodia since Sep 2007 and Jan 2008, respectively.
- ✓ KRX was also contacting for helping Myanmar to establish a stock exchange.
- ✓ Tokyo Stock Exchange Group and DIR decided to sign an MOU with CBM immediately.

4-1.YSX project : 2011 – MOU signed

Oct-10 An MOU draft submitted to the Central Bank of Myanmar (CBM)



General Election, Nov-10



Jul-11	Requested to submit the MOU again
Sep-11	Approval by Minister
Jan-12	Sent to President Office
Apr-12	Approved by President Office
May-12	MOU signed between CBM, JPX and DIR

Signing ceremony on the MOU between CBM, JPX and DIR, 29 May 2012



4-2. YSX project : building an all Japan project team

Major issues	
1) Drafting Securities and Exchange Law	4) Developing securities industry
2) Establishing a regulatory authority	5) Improving accounting
3) Building IT system	6) Educating investors

Issues	Conducted by	Note
Drafting Securities and Exchange Law	Policy Research Institute (MOF)	Signe an MOU with CBM, Aug-12
Drafting rules and notifications for Securities and Exchange Law	PRI	Sign an MOU with MOF, Jan-15
Establishing Securities Exchange Commission	FSA	Signed an MOU with MOF, Jan-14
Making YSX rules	JPX	Signed an MOU with CBM, May-12
Developing IT system for YSX	DIR	Signed a JV agreement with MEB, Dec-14
Short-list IPO candidates	Daiwa Securities Group	Myanmar Institute of Certified Public Accountants, Dec-13
Supporting education for accountants		

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9

5. Road to opening YSX

	2012	2013	2014	2015	2016
Legal framework and regulator	2012.8 PRI-CBM MOU	2013.7 Securities and Exchange Law enacted	2014.1 FSA-MMOF MOU 2014.8 Securities Exchange Commission Myanmar established	2015.7 Rules for S. E. Law approved	
YSX	2012.5 TSE-DIR-CBM MOU		2014.12 JV agreement	2015.4 IT system ordered Settlement bank appointed Approved as the stock exchange by SECM	2015.8 Building ready 2015.12 Opening ceremony 2016.3 Trading started
Securities companies				2015.10 Licensees candidates announced	
Listed companies				2015.8 Listing requirements	
Investors			2014.10 2014.11 Investor seminar by Daiwa Securities Group	2015.1 2015.3	
Financial literacy	Capital market seminar (1 st -6 th , 20 locations), two comic books, booklet and DVD "Developing Myanmar Capital Markets, Introduction to JPX DVD in Burmese"				

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6-1. Discussions and capacity building

Discussions

- ✓ JPX and DIR intensively discussed on the basic design of YSX since the signing of the MOU with CBM.
- ✓ JPX and DIR submit proposals for the YSX establishment.
- ✓ We also submitted a report called “9 Keys to Success in Development of Myanmar Capital Markets,” requesting Myanmar to decide nine issues, mainly legal issues.

Capacity building

- ✓ We were often asked by people in Myanmar, “why do we need capital markets?”
- ✓ We held a capital market seminar six times, at 20 different locations, for Aug 2012 and Oct 2013 to share knowledge with government officials, financial institutions, professors, accountants, lawyers and media.
- ✓ In addition, we distributed comic books as well as showing a DVD in the local language.

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11

6-2. Discussions and capacity building

Finance Minister U Win Shein, Deputy Minister for National Planning and Economic Development U Set Aung, CBM Governor U Than Nyein, on as site tour at JPX, 12 Oct 2012



6th Capital Market Seminar by PRI, JPX and DIR, 25 Oct 2013,



2nd Capital Market Seminar by JPX and DIR



Deputy Finance Minister Dr Maung Maung Thein, trading room at Daiwa Securities, 6 Feb 2013



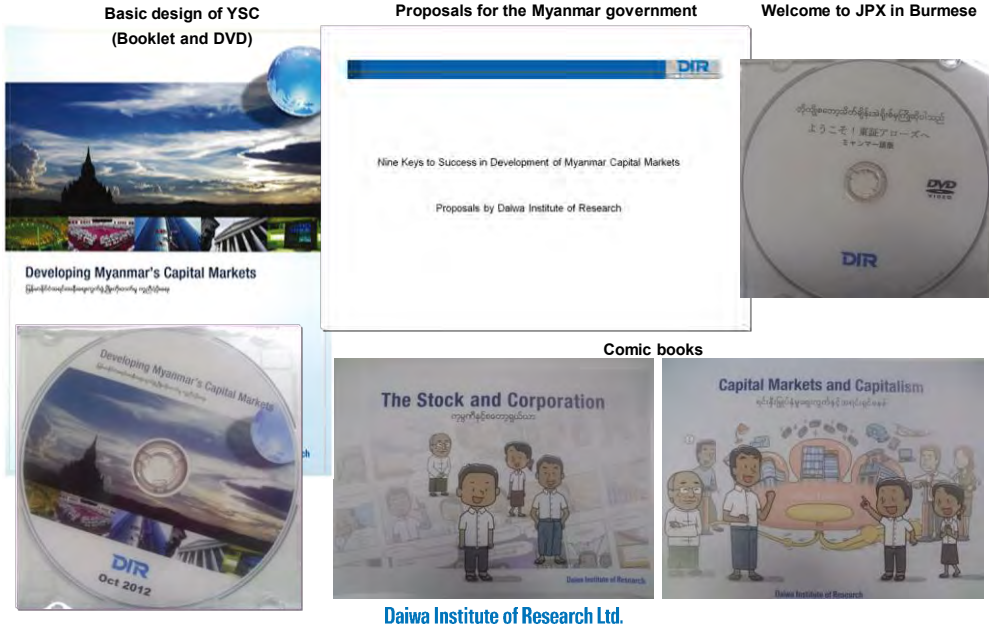
Signing ceremony for JV agreement of YSX, 23 Dec 2014



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6-3. Discussions and capacity building



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7-1. IT system development

Developing first

- ✓ JPX and DIR agreed that the IT system for YSX would be developed by DIR.
- ✓ DIR started development without order to meet the target of establishing YSX by 2015. Usually IT system vendors start development only after order was secured.

Design

- ✓ We assumed that listed shares would be all scripless. Shares traded at MSEC, as well as government bonds were physically traded. We spent months in explaining about scripless trading to the Myanmar government.
- ✓ Unlike in Japan, we proposed that YSX should incorporate all of trading, clearing, settlement and depository by IT system.
- ✓ We also urged the Myanmar government to issue securities companies licenses as soon as possible.

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7-2. IT system development

IT system demonstration room



Data center construction



2013



2015

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15

8. YSX at a glance

YSX building, front
Jan 2016



YSX entrance, opening ceremony
9 Dec 2015



YSX ground floor, before renovation
2013



YSX ground floor
Jan 2016



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16