

**Outline of Draft Government and Cabinet Office Ordinances of the
Financial Instruments and Exchange Law**

**April 2007
Planning and Coordination Bureau
Financial Services Agency**

SAMPLE ONLY

This translation is for reference purposes only and was neither reviewed nor approved by the Financial Services Agency, and is not an official interpretation of laws and regulations. The Japanese original released by the Financial Services Agency supersedes this translation, should there be discrepancies or differences between the Japanese and the English versions.

The International Bankers Association has prepared this translation with the intention of having the content, as much as possible, accurately represent the Japanese original. However, differences in layout and pagination from the Japanese original will exist.

INTERNATIONAL BANKERS ASSOCIATION

Ark Mori Building, 14F
1-12-32 Akasaka
Minato-ku, Tokyo, Japan 107-6014

Telephone: (03) 5545-7511
Facsimile: (03) 5545-0502
E-mail: g-info@ibajapan.org
Website: www.ibajapan.org

TABLE OF CONTENTS

TOTAL DESIGN OF REVISION -----	2
HISTORY AND SCHEDULE-----	3
EXPANSION OF SUBJECT INSTRUMENTS AND TRANSACTIONS-----	4
CROSS-SECTIONAL REGULATION AND FLEXIBILIZATION OF REGULATION ON ENTRY CORRESPONDING TO TYPE OF BUSINESS-----	5
REGULATION ON DIRECT OFFERING AND SELF-MANAGEMENT OF COLLECTIVE INVESTMENT SCHEMES-----	6
CONDUCT REGULATION TO BE COMPLIED WITH BY FINANCIAL INTERMEDIARIES-----	7
FLEXIBILIZATION OF REGULATION CORRESPONDING TO TYPES OF CUSTOMERS----- (Division between Specified Investors (Professional Investors) and General Investors)	8
CROSS-SECTIONAL LEGISLATION FOR PROTECTION OF INVESTORS-----	9
SECURING PROPER EXECUTION OF SELF-REGULATORY ACTIVITIES OF EXCHANGES-----	10
DISCLOSURE CORRESPONDING TO NATURE/LIQUIDITY OF SECURITIES-----	11
IMPROVEMENT OF DISCLOSURE BY LISTED COMPANIES-----	12
DISCLOSURE REGULATION INVOLVING EQUITY OF COLLECTIVE INVESTMENT SCHEMES, ETC.-----	13
DISCLOSURE REGULATION INVOLVING REORGANIZATION-----	14
EXPANSION OF SCOPE OF QUALIFIED INSTITUTIONAL INVESTORS-----	15

LAW PARTIALLY MODIFYING THE SECURITIES AND EXCHANGE LAW ETC. (Cross sectional Legislation for Protection of Investors), ETC. (Enacted on June 7, 2006 and Promulgated on June 14, 2006

The Securities and Exchange Law

The Financial Instruments and Exchange Law

Point 1
Building of cross-sectional legislation

Point 2
Enhancement of disclosure

Point 3
Appropriate operation of self-regulatory activities of exchanges

Point 4
Rigid treatment of unjust transactions

- Cross-sectional Regulation:**
- Expansion of subject instruments and transactions; (For example) Equity of collective investment schemes (funds), derivative transactions,, etc.
 - Cross-sectional inclusion of subject business activities; (For example) Direct offering and self-management of collective investment schemes (funds)
 - Cross-sectional conduct regulation standards to be complied with by financial intermediaries
- Flexibilization (from general regulation to differentiated regulation)**
- Flexibilization of regulation on entry from business to business;
 - Regulation on funds for professional investors on a notification basis; and
 - Simplification of regulation on transactions with professional investors.
-
- Enhancement of disclosure by listed companies etc. (quarterly disclosure, internal control report involving finance, etc.);
 - Review of TOB system; and
 - Review of large shareholders report.
-
- Introduction of system concerning highly independent organizations performing self-regulatory activities
-
- Increased upper limit of penalty (imprisonment of up to 5 years → imprisonment up to 10 years, etc.); and
 - Imposition of fine and criminal penalty on Misegyoku (offering to purchase without real intention to purchase).

- The Banking Law, the Insurance Business Law, Trust Business Law etc.
- The Commodities Exchange Law and the Real Estate Specified Joint Business Law

} Rules for solicitation and sale equivalent to those in the Financial Instruments and Exchange Law are applied.

- The Financial Products Sale Law Expansion of scope of explanatory obligation, etc.

(Points of draft government ordinances, cabinet office ordinances, etc.)

- Subject Instruments: Addition of school bonds;
- Details of subject instruments/transactions and subject business activities (exclusive of items whose regulation is not necessary from the viewpoint of protection of investors);
- Details of requirements for refusal of registration; and
- Details of regulation on activities (regulation on advertisements, obligation of explanation, prohibited activities, etc.).

(Points of draft government ordinances, cabinet office ordinances, etc.)

- Establishment of minimum capital and other requirements from business to business;
- Details of business of funds for professional investors to be regulated on a notification basis; and
- Detailed scope of professional investors (specified investors) and non-professional investors;

(Points of draft government ordinances, cabinet office ordinances, etc.)

- Establishment of disclosure system by kind of securities etc.;
- Enhancement of disclosure related to reorganization of enterprises; and
- Remarkable expansion of scope of qualified institutional investors.

Review of TOB system and large shareholders report (already enforced on December 13, 2006, January 1, 2007 and April 1, 2007)

- Detailed scope of self-regulatory activities; and
- Scope of parties qualified to acquire and hold 20 to 50% of shares of an exchange.

Already enforced (on July 4, 2006)

(Points of draft government ordinances, cabinet office ordinances, etc.)

- Detailed scope of deposits, insurances, trusts, etc. of strong investment nature; and
- Detailed scope of conduct regulation.

(Points of draft government ordinances, cabinet office ordinances, etc.)

- Addition of subject transactions: Overseas commodities derivative transactions shares of an exchange.