



Priorities of SESC's Oversight

- in relation to Financial Administration Policy-

Kiyotaka Sasaki
Director General
Securities and Exchange
Surveillance Commission (SESC)



Three pillars of Financial Oversight

- 1. Oversight of regulated entities; licensing/registration, off- and on-site monitoring, enforcement**
- 2. Market oversight; surveillance of market participants and transactions, enforcement**
- 3. Integrated oversight both domestic and global; globalization of regulated entities and transactions**



SESC's role for Three Pillars

- 1. Oversight of regulated entities; on-site inspection of investment banks, broker dealers and other firms**
- 2. Market oversight; surveillance for market integrity and enforcement actions against market misconducts**
- 3. Integrated oversight both domestic and global; global firms and cross-border transactions**



SESC's priorities: Market integrity

- 1. Leveraging SESC's cross-functions**
- 2. Surveillance of cross-border transactions**
- 3. Timely and effective enforcement actions**
- 4. Root cause analysis**
- 5. Enhanced market discipline**
- 6. Response to IT**
- 7. Fair disclosure by listed companies**
- 8. Enhanced audit quality**
- 9. Risk-based on-site inspections of regulated entities**
- 10. Increased accountability of SESC**



Leveraging cross-functions

- **SESC's power**
 - **market surveillance**
 - **inspection of regulated entities**
 - **inspection of market misconducts (insider dealings, market manipulations)**
 - **inspection of financial fraud and false financial disclosures**
 - **criminal investigation**



Leveraging cross-functions

- **Closer information sharing across functions within SESC**
- **Multiple use of information for other functions/cases within SESC**
- **Deeper and horizontal analysis of results of each inspection/investigation**
- **Identification of common trends and issues for market integrity**
- **Contribution to efforts by other stakeholders for market integrity; rule making by FSA, preventive measures by SROs**



Surveillance of cross-border transactions

- **On-going monitoring of cross-border transactions**
- **Enhanced cooperation with stock exchanges and broker dealers**
- **Enhanced cooperation with foreign oversight bodies; information exchange, joint inspection,**
- **Increased cases of enforcement actions against investors overseas**



Timely and effective enforcement actions

- **Timely inspections and investigations**
- **Increased use of administrative monetary penalty inspection; in particular, for false financial disclosures**
- **Effective use of criminal investigations against serious misconducts**
- **Enhanced cooperation with other bodies; SROs, criminal authorities, foreign regulators**



Root cause analysis

- **SESC's focus on non-compliance and failure in risk management**
- **Increased SESC's attention to root cause analysis of non-compliance/risk management; prevent recurrence of problems**
- **Root causes**
 - **business models**
 - **incentives (HR, salaries/bonuses)**
 - **culture**
 - **tone at the top ...**



Enhanced market discipline

- **Importance of preventive measures vs. ex-post actions by SESC**
- **Preventive measures by stakeholders for market integrity**
 - **SROs; rule making and monitoring**
 - **Securities firms and broker dealers; 3 Lines of defense**
 - **PIEs; enhanced corporate governance**
 - **Audit firms; enhanced audit quality**
 - **Law firms and other gatekeepers**
 - **Investors**



Enhanced market discipline

- **Raising awareness about SESC's oversight; increased visibility and exposures of SESC**
- **Outreach to stakeholders for market integrity; horizontal/industry-wide issues and implications identified by SESC's inspections/investigations**



Response to IT

- **Market surveillance; HFT**
- **Inspections/investigations; digital forensics**
- **FinTech and AI (artificial intelligence);**
 - **impact to business models of regulated firms**
 - **impact to transactions and their surveillance**



Fair disclosures by Listed Companies

- **A group of problematic companies (so-called `Box companies`): continuous monitoring, enforcement actions, delisting from stock exchanges**
- **Majority of listed companies; new monitoring approach**
 - **Macro analysis; impact by economic changes**
 - **Industry specific and thematic reviews**
- **Root cause analysis; corporate governance, Board of Directors, Audit Committees**



Enhanced audit quality

- **Heightened expectation for audit firms as gatekeeper for market integrity**
- **Issues of audit firms for fair disclosures and effective corporate governance of PIEs**
- **Closer cooperation with Certified Public Accountants and Audit Oversight Board (CPAAOB), FSA**



Risk-based on-site inspections of regulated entities

- **Integration of off-site monitoring by FSA and on-site inspection by SESC as seamless process**
- **More risk-based approach based on effective risk assessment off-site**
- **Developing monitoring policy for each firm and group/category of entities; G-SIFIs, med- and small-sized firms, Internet Brokers...**



Risk-based on-site inspections of regulated entities

- **Continuous monitoring; more off-site than on-site**
- **Horizontal/thematic reviews**
- **Review of three Lines of Defense**
 - **1st Line; business**
 - **2nd Line; risk management and compliance**
 - **3rd Line; internal audit**



Focus of monitoring of regulated entities

- **Effectiveness of each three line of defense**
- **Business models and their changes/sustainability**
- **Governance; effectiveness of board of directors and audit committees**
- **Root cause analysis; business model, governance, HR, incentives, culture**



Issues for IBA members; Local governance and accountability

- **Business models and changes (downsizing, deleveraging); beyond control by local management**
- **Local governance and accountability**
- **Local compliance**
- **Risk/compliance culture**
- **Oversight by global management**
- **Balance between global/matrix management and local management**



Issues for IBA members

- **Outsourcing outside Japan**
- **IT governance; cybersecurity**
- **Surveillance of transactions of market misconducts**
- **Risk management; Compliance, liquidity risk, market risk, operational risk**



Approach for IBA members

- **FSA (Inspection and Supervisory Department)-SESC joint/coordinated monitoring, including risk-assessment**
- **Continuous monitoring; more off-site, frequent meetings with three lines of defense**
- **On-site monitoring/inspection with focused issues/areas**



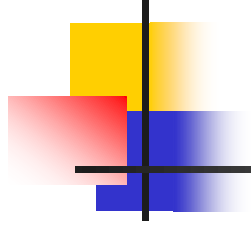
Expectation for IBA members

- **Frequent meetings with local and global/regional management for three lines of defense**
- **In particular, meetings with CEO, CFO, COO, CRO, CIO, CCO, members of Board and Audit Committee, and Chief Internal Auditor**



Increased accountability of SESC

- **External communications; more information on backgrounds and details of cases of market misconducts**
- **Outreach to stakeholders; lectures, speeches, publications**
- **SESC's first meeting in Osaka (Nov 2015)**



Thank you