

Appendix 1

Outline of the Amendment of the Financial Instruments and Exchange Act, etc. in 2009

(Purpose)

- The need to respond to turmoil in the global financial market
- The need to develop a secure transaction environment for users
- The need to enhance the functions of Japan's financial and capital markets

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The challenge is to build reliable and vigorous financial and capital markets

Securing fairness and transparency in the markets

○ Introduction of regulation for credit rating agencies

➤ Introducing a registration system

- Register credit rating agencies (CRAs) with established control systems
- Impose limitation on the use of an unregistered CRA's credit ratings when financial instruments business operators, etc. solicit customers to conclude a contract for financial instruments transaction (for example, requiring them to explain the fact that the CRA is not registered and assumptions/limitations of credit ratings)

➤ As for a registered CRA, the framework of regulation establishes:

- (1) Duty of good faith
- (2) Establishment of control systems
 - to prevent conflicts of interest
 - to ensure fairness of the rating process, etc.
- (3) Prohibition from ratings in the case where analysts/CRAs hold the stocks of rated entities, etc.
- (4) Information disclosure
 - establish and publish rating policies, etc.
 - public disclosure of explanation documents, etc.

- A registered CRA will be subject to supervisory order for production of reports and on-site inspection, order to improve business operations, etc.

Enhancing user protection

- Creating an alternative dispute resolution system in the financial field (FSADR: Financial Services ADR)
 - Establishing a common framework across the Financial Instruments and Exchange Act and other financial-related acts
 - Designating bodies that implement complaint processing and dispute resolution procedures (DRB: Dispute Resolution Body)
 - Requiring financial institutions to conclude a contract covering the following points with a DRB:
 - (1) Consenting to the complaint processing and dispute resolution procedures
 - (2) Providing explanations on circumstances and submitting relevant materials
 - (3) Respecting the resolution proposed by the dispute resolution provider
 - * If there is no DRB, financial institutions will implement efforts for complaint processing and dispute resolution.
 - Making DRBs subject to requests for reports, on-site inspections, orders to improve business operations, etc.
- Reviewing the procedure for changing status between a professional investor and a general investor
 - Making the effect of a change of status from a professional investor to a general investor last until the customer makes a request therefor (such effect lasts for one year at present), etc.
- Introducing an obligation of separate management of over-the-counter transactions of securities-related derivatives
 - Making such transactions subject to the obligation for separate

management, except for transactions between financial institutions and other transactions that are found to cause no hindrance to investor protection

Developing fair and convenient market infrastructure

- Allowing mutual entry between financial instruments exchanges and commodity exchanges
 - Establishing a framework for allowing a financial instruments exchange to establish a commodity market, and a commodity exchange to establish a financial instruments market (allowing entry by an exchange itself, or entry by way of establishing a subsidiary of the exchange or a subsidiary of the exchange's holding company)

- Reviewing the shelf registration system for company bonds, etc.
 - Allowing an issuer to state the “upper limit of the outstanding balance” in lieu of the “planned amount of issue” in a shelf registration statement

- Reviewing the definition of “secondary distribution of securities”
 - Establishing the following three types of disclosure regulations to be applied according to the characteristics of securities (e.g. the foreign government bonds that have sufficient liquidity markets and the information of which, such as the value, is readily available for Japanese investors) and attributes of investors (e.g. qualified institutional investors only):
 - (1) Statutory disclosure
 - (2) Provision of simple information
 - (3) Exemption from disclosure