- This document provides a brief summary of insider trading regulations in Japan and is intended for educational purposes only. Contents have been recapitulated and omitted for perspicuity. Please consult a legal advisor as needed.
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1

Have you ever heard of the term “insider trading”?

Maybe you know that it is “prohibited”.

Today, we are going to talk about what “insider trading” actually is; what kinds of punishment you are subject to if you engage in insider trading; whether employees of a listed company, like us, are even allowed to purchase stocks; if we are, what we have to pay attention to; and more.

The objective for today is to briefly cover insider trading in a relatively short period of time. Therefore, we cannot go over every point in detail. We are trying to make it easy to understand, so we will just talk about some principles without going into the exceptions.

Please be aware that you are not expected to gain a full and thorough understanding of insider trading from just listening to today’s lecture.
Also, if something is not clear during today’s talk, or if you feel a little confused in the event you actually trade stocks, please contact the department in charge for more information.

2

Now let me begin.
Please look at this second slide.

Let’s assume that there was a person at a company who was working on data collection for settlement of accounts. Said person found a large increase in profit and informed the company officer in charge about this fact.

The officer was going to report this large increase in profit at the board meeting. However, just right before that, the officer decided to purchase the stock thinking: *Once this financial information indicating a large increase in profit goes public, the stock price will go up. So, if I buy this stock before this information reaches general investors and sell it after the information goes public, then I can make money!*

What do you think of this behavior?

This is “dishonest”, right?

Usually, when financial information indicating a large increase in profit is made public, stock prices rise.

As such, the officer in this example would be able to make a lot of money easily by purchasing stock ahead of public disclosure of the financial information.

Before public disclosure of such types of financial information, only people inside the corporation, characterized as “insiders”, know of the information while general investors do not.

It is common for general investors to decide whether to buy stocks based on the analysis of the information concerning whether the company will make money, pay dividends, etc. and whether the stock price will rise.

This means that while general investors trade stocks based on “predictions”, insiders are doing so based on “certainties”. This is unfair.

If general investors find out that “insiders” trade stocks based on the information such insiders were able to obtain because of their very position as insiders, allowing such insiders to then make money, general investors will be reluctant to trade in such an unfair market. They would then flee the market, thereby leaving less and less people who would like to trade in said market until, eventually, the market itself would no longer function.

Thus, this kind of dishonest, insider trading is prohibited by the law.

$\boxed{3}$

Then, what is the punishment for insider trading?
Let's take a look at slide 3.

Insider trading is a crime and you could be subject to criminal penalties.

If someone is discovered to be partaking in insider trading and is found guilty, he/she may face fines of up to 5 million yen or be sentenced to up to 5 years in prison. It is possible for the person to be subject to fines, imprisonment, or both. Past cases indicated that the imposition of both fines and imprisonment is the usual for most cases.

Furthermore, in addition to the above fines, the guilty party may face asset confiscation or supplementary charges.

For example, let's say somebody buys stock with a value of 2 million yen based on insider information. After the stock price rises due to the disclosure of said information, this person sells the stock at a value of 3 million yen.

In this case, the profit from insider trading is 1 million yen. However, the amount that shall be confiscated will be the whole 3 million yen. That is, what shall be confiscated is not only the profit, but also the money used in this case of insider trading. It means that if you use all your assets when conducting insider trading, you can lose everything.

In addition, even if the case is not considered severe enough to be sentenced to criminal penalties, the administrative monetary penalty payment could be ordered.

The payment order is one kind of administrative sanction. Although it is not a criminal penalty, a certain amount of money must be paid.

The ordered amount of the payment will be calculated according to the formula you can see here in this slide.

Securities and Exchange Surveillance Commission, as a national institution, will decide which punishment to impose on the person who has committed insider trading. This may be criminal penalties or administrative monetary penalty payment order. It is common for one of these to be imposed on the guilty party.

Moreover, as it is written at the bottom of the slide, it is not unusual to see people who commit insider trading receive disciplinary action in accordance with the work rules of his/her workplace.

There have been some cases of disciplinary dismissal in the past.

We have to seriously consider such disciplinary action in the event we discover that someone has engaged in insider trading at our own company. Disciplinary dismissal is also an option.

Though it is not a direct penalty upon the employee him/herself, the person's employer can also lose credibility as a company.

It is often seen that the name of the company is also reported and the company's reputation is damaged when an employee has been found guilty of insider trading and fined or convicted.

Not only that, but officers or superiors may also have to take responsibility and business operations may be negatively impacted—such as if business partners terminate contracts or the company's stock price falls drastically.

In this way, insider trading can severely impact and damage the individual and company. Please be very careful not to become involved in insider trading.

4

Now, does this mean that as an employee at a listed company, you are forbidden from trading stocks? The answer is no.

If the trading is not regarded as the insider trading prohibited by law, it is ok to trade stocks, including those of your own employer.

[Please briefly mention company internal rules (whether employees must make notifications or obtain special permission to trade, whether there are restrictions as to whose stock can be traded, i.e. those of one's own company or of other companies, too) here, and expand in more detail in slide 8.]

Let's look at slide 4.

This slide explains what you have to pay attention to when you trade stocks.

Firstly, please rethink whether the stock you want to trade is of a listed company for which you know some nonpublic insider information.

Secondly, please firmly obey the internal rules we talked about earlier.

You can avoid becoming involved in insider trading by following the internal rules. We will talk about detailed internal rules later in this presentation.

If you feel confused about any tiny point regarding insider trading or corporate internal rules, please consult the department in charge.

$\boxed{5}$

Then, what is insider information?
Please look at slide 5.

To put it simply, insider information is that which might have significant influence on the stock price.

This means such pieces of material information as those announcing offering of shares, stock splits, mergers, business alliances, damage arising out of disasters, development of new products, or other significant events and matters.

The examples written here are just a snippet of what can be considered insider information. It is prohibited to trade stocks with the knowledge of insider information before said information is disclosed to the public.

Although the law specifies what types of information constitutes insider information, they can be subject to interpretation. Therefore, if you are going to trade stocks with knowledge of information that may seemingly impact the stock price, please consult the department in charge beforehand.

$\boxed{6}$

Here is the next question. Is leaking insider information subject to criminal penalties or administrative payment? This also is a frequently asked question.

Take a look at slide 6.

I already explained that the person who commits insider trading is subject to criminal penalties or administrative payment.

Here, the person who is subject to criminal penalties or administrative payment is limited to the one who actually conducted the trading.
Just leaking insider information itself will not be subject to criminal penalties or administrative payment.

However, it by no means guarantees that there is nothing wrong with leaking insider information.

Please think about the examples on this slide, where you imagine if you were to casually let it slip to your family over dinner that your employer is planning to conduct a merger, or if you were to happen to accidently mention to a business partner during a meeting that your employer company's performance has drastically deteriorated.

It is highly likely that a member of your family or someone at the partner company might be compelled to engage in insider trading after learning of the insider information you shared with said person.

Let's suppose that your counterpart at the partner company is in possession of our company's stock.
If he were to obtain information indicating a large drop in earnings, he might sell the stock before the information is disclosed and before stock prices drop.
At the time of trading, said counterpart is bound to be subject to investigation by the investigating authority; and, eventually, the results of the investigation will lead to criminal penalties, administrative payment orders, or disciplinary action from his company because of his involvement in insider trading.

Leaking insider information to people around you means that you give them a chance to engage in insider trading and become criminals.
Even if you had no intention to make them criminals, if you share insider information with them, the end result could be adverse.

What's more, just as it says here at the bottom of the slide, indirectly prompting others to become involved in insider trading through the leakage of information may well cause damage to our company's reputation.

It can label our company as an organization that lacks the capacity to properly manage information.
From this perspective, we have to consider imposing disciplinary action on the person who leaked the information.

Please exercise a sufficient amount of caution when managing sensitive information.

7

It is a mistake to think that the merely furnishing information is not illegal.

Please look at slide 7.

Leaking information with the intention to prompt someone to engage in insider trading is a violation of the law.
The following are examples of illegal activities:

- You find out about a substantial upward revision to a forecast that is scheduled to be disclosed soon, and then share that information with the intention of making others gain profits from the stock price increase after the disclosure.
- You find out about a large customer's bankruptcy and a large profit decrease that will ensue, and then share that information with the intention of preventing a friend from incurring losses by selling the stocks before the disclosure and before the stock price drops.

It is also illegal to recommend buying/selling of stocks with the same intentions that were just described, even if you do not share any insider information.

8

Next, let me introduce some common misconceptions.

Please take a look at slide 8. These cases are frequently misunderstood as not constituting insider trading.

- The person bought the stock with knowledge of insider information but kept it and has yet to sell said stock.

- The person bought the stock with knowledge of insider information but barely made any profit or even suffered a loss when said person sold the stock.
- The person bought just one share or an extremely small amount of shares, such as whatever the minimum trading unit is for that market.

However, all of these constitute insider trading.

As long as you trade stocks with knowledge of nonpublic insider information, it will still be considered insider trading.

Whether you had the intention to make money, or whether you actually made money, are not the barometers against which to measure whether or not said trading constitutes insider trading.

As mentioned earlier, please pay careful attention to whether you have knowledge of insider information pertaining to the company whose stock you want to trade.

If you are not sure whether it is legitimate to trade stocks under certain circumstances, please avoid acting on your own judgment and consult with the department in charge.

Now look at the bottom of this slide. The authorities and stock exchanges are monitoring transactions in the market, and data involved in all transactions are well preserved. As such, this is a system that can fully grasp who is doing the transaction and what kind of transaction is being done.

Please never ever think that "Nobody knows" and get involved in insider trading.

Insider trading will not only cause the company a lot of trouble, but also, most importantly, cause suffering to the person who engaged in said insider trading.

9

We are coming to the end of this lecture, but I'd like to let you know that we have formulated internal rules with the aim of preventing our employees from getting involved in insider trading.

Please look at slide 9.

As we lightly touched upon earlier, *[please explain the internal rules]*.