

*Internal training materials*

# Outline of insider trading

Trainers: These materials provide a simple explanation of insider trading.

Slides 1 through 10 provide a basic overview of insider trading regulations, and slides 11 to 17 present some concrete examples that cover important points to pay attention to.

Feel free to use all or part of these materials at your convenience.

Provided by: Japan Exchange Regulation  
COMLEC

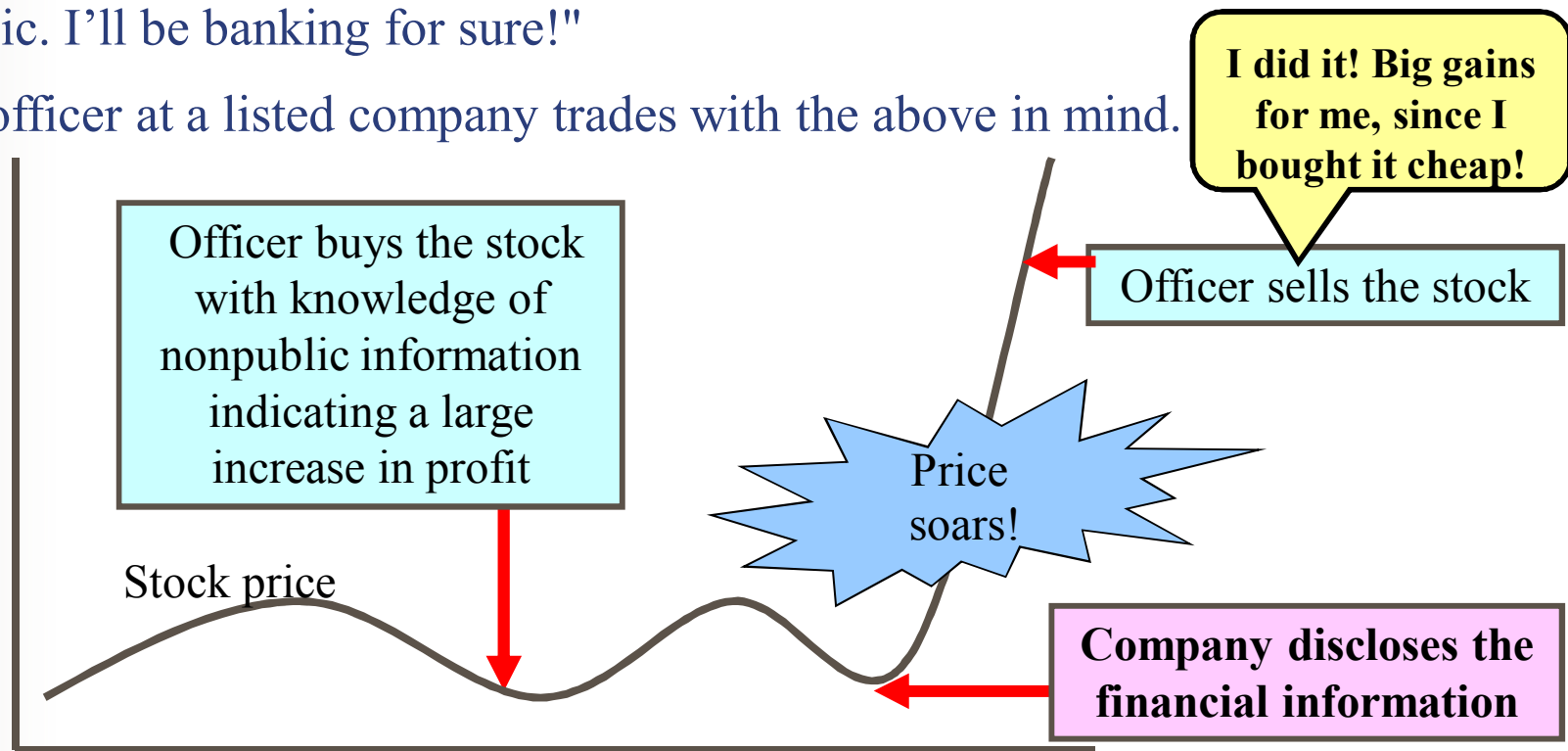
**This document provides a brief summary of insider trading regulations in Japan and is intended for educational purposes only. Contents have been recapitulated and omitted for perspicuity. Please consult a legal advisor as needed. While every effort has been made to ensure the accuracy of the information presented wherein, Japan Exchange Regulation (JPX-R) shall bear no responsibility or liability for any damage, loss, or action arising from the use of this information, including errors in posted information and malfunctions during download.**

Copyright © 2016 Japan Exchange Regulation. All rights reserved

## Typical Case of Insider Trading

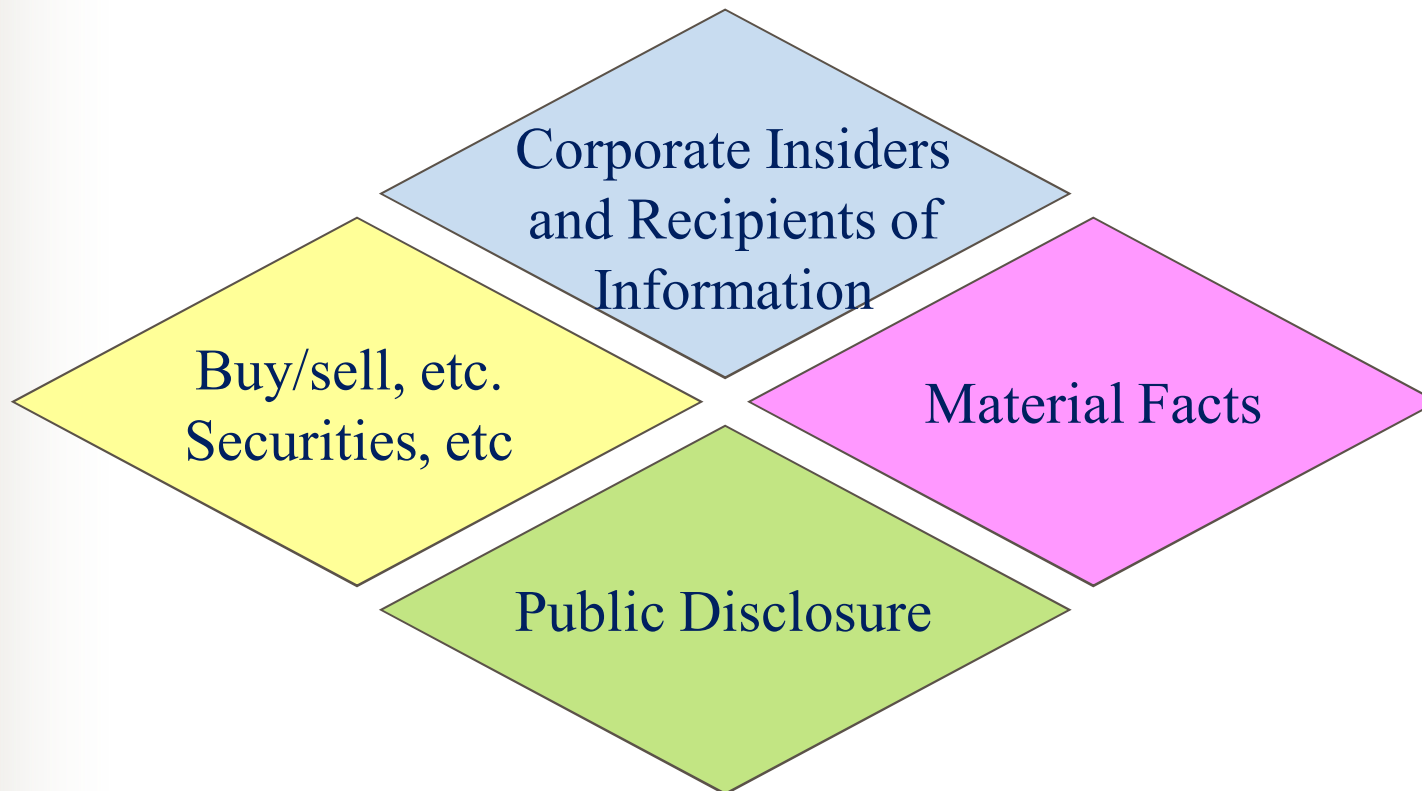
"It looks like our company will be announcing some significant upward revisions to earnings forecasts. There's no doubt the stock price will go up once the information is disclosed. I'll go ahead and buy this stock before the news reaches general investors, and then sell it after the information goes public. I'll be banking for sure!"

An officer at a listed company trades with the above in mind.



# Components of Insider Trading Regulations

## Four Key Terms



Are you a corporate insider?

## Who are corporate insiders?

Stocks of where you work  
and other companies

- (1) Officers and employees of a listed company
- (2) Business partners, contracted consultancy firms, etc.
- (3) Officers and employees at the same legal entity (when (2) is a legal entity)

The above are primary examples of corporate insiders.

## Who are recipients of information?

Persons who received **material facts** directly from corporate insiders are subject to insider trading regulations.

\*It doesn't matter whether or not the recipient of information works for the listed company.

You are subject to insider trading regulations upon gaining knowledge of such facts.

## What are material facts?

Any piece of information that can be expected to significantly influence the stock price.

This also includes information on a subsidiary of the listed company, which can largely affect the business of the group.

Specific Examples of Material Facts	
Offering of shares	Takeover bids (TOB)
Mergers	Huge fictitious sales
Business alliances	Manipulation of product's test figures
Damages arising out of disasters	Enormous syndicated financing
Administrative sanctions	Substantial revisions to earnings or dividend forecasts

\* Some material facts have numerical minimal standard criteria.



# What is public disclosure?

The publication of material facts on the Exchange's official website. (the most typical method)

\*The publication of material facts on the official website of the listed company is not deemed as disclosure, and insider trading regulations still apply.

## JPX Website



アクセス 見学 お問合せ 用語集 JPXカレンダー English 中文 文字サイズ 小 中 大 サイト内

トップページ > 上場会社情報 > 適時開示情報閲覧サービス > 適時開示情報閲覧サービス

2015/03/27 更新 このページ

### 適時開示情報閲覧サービス

適時開示情報閲覧サービス ご利用案内

「適時開示情報閲覧サービス」では、国内金融商品取引所（東京証券取引所、名古屋証券取引所、証券業協会が指定するグリーンシート銘柄（フェニックス銘柄を含みます。））が開示した投資判断に重要な情報をご覧いただけます。また、「適時開示情報閲覧サービス」とは別に、東京証券取引所に上場している会社については、過去1年分（決算情報は5年分の基本情報等の情報を「東証上場会社情報サービス」にて提供しています。

● 東証上場会社情報サービス

[適時開示情報閲覧サービスはこちら](#)

マーケット情報 上場会社情報 株式・ETF・REIT等 先物



平成20年4月1日

各 位

会社名 ××株式会社  
代表者名 代表取締役 伊山 浩樹  
(コード 3000 東証第1部)  
問い合わせ先 広報・法務  
(TEL: 03-XXXX-XXXX)

平成20年4月期 業績予想修正に関するお知らせ

当社は、本報各報に開示しました平成20年4月期（平成20年4月1日～平成20年3月31日）の連結業績予想を下記の通り修正することといたしましたので、お知らせいたします。

記

1. 当期の連結業績予想数値の修正（平成20年4月1日～平成20年3月31日）

	営業利益	営業利益	経常利益	当期利益	調整後当期利益
前年度(前年度)	△,XXX	△,XXX	△,XXX	△,XXX	△,XXX
本年度(本年度)	△,XXX	△,XXX	△,XXX	△,XXX	△,XXX
増減額(増減)	△,XXX	△,XXX	△,XXX	△,XXX	△,XXX
増減率(増減)	△,XX%	△,XX%	△,XX%	△,XX%	△,XX%
中期・前期(連結業績予想)	△,XXX	△,XXX	△,XXX	△,XXX	△,XXX

注: 修正の理由



## Are there other illegal acts besides trading?

It is illegal for a corporate insider to **share information or recommend trading** if the following applies:

- (1) It was done **for the purpose of** making the other person realize a profit or avoid loss by trading ahead of disclosure,
- (2) As a result, said person in fact engaged in trading ahead of disclosure.

\*Sharing information that is necessary in the course of duties is not illegal, because it is clear that the purpose in (1) above does not apply.

# How is insider trading punished?

## Criminal Penalties / Administrative Monetary Penalty Payment and others

### **(CRIMINAL PENALTIES)**

- Fines of up to 5 million yen and/or imprisonment of up to 5 years
- Confiscation of assets (charge for value if confiscation is impossible)  
**Say you used 2 million yen for buying. Then, when the stock price soared, you made 3 million yen from selling off said stock. That means:**  
**Profits amounted to 1 million yen, but 3 million yen will get confiscated!**

### **(ADMINISTRATIVE MONETARY PENALTY PAYMENTS)**

- Surcharge: pay an amount equivalent to the profit  
Meaning, **the difference between the highest/lowest price within two weeks after the disclosure and the actual buying/selling price**

### **(OTHERS)**

- Company internal procedures (disciplinary action)
- Damage to company's reputation



## What must you do to avoid insider trading?

- Fully understand insider trading regulations
  - ✓ Do you have knowledge of material facts?
  - ✓ Have those material facts been disclosed?
- Always adhere to internal rules.
- Contact the relevant department if you're unsure of something.

Please ask yourself these questions.

Company internal rules exist to protect you

Trainers: Feel free to add contact information for the relevant department, as well as any other rules or notes in this slide at your own discretion.

## How can you prevent others from engaging in insider trading?

Proper information-handling is crucial

- Do not thoughtlessly leak material facts
  - ✓ It is not written in law that these “shall not be leaked”, but
  - ✓ Avoid it so as not to conduce family or friends to insider trading
- Know you’re at risk for disciplinary action and loss of trust
- Always follow the internal rules when handling information

Trainers: Feel free to add contact information for the relevant department, as well as any other rules or notes in this slide at your own discretion.



## Learn about Insider Trading Regulations via Case Studies

- The following cases include points that people tend to misunderstand.
- Keep in mind that this is likely to happen around you and that it can be deemed as insider trading even under such circumstances.

## Case 1: Possessing stocks via a shareholding association

X



I joined the company 30 years ago and has steadily been buying company stock via the shareholding association, reaching a current value of 10 million yen.

Just between you and me, I heard our **business partner** is going **bankrupt**, and we'll **be losing money**, too. The announcement goes out tomorrow.



Y

X



### Are you kidding me?!

Once the news spreads, the stock price will tumble. I've worked too hard to accumulate the 10 million yen I have now. I can't let that go to waste. I'll just go ahead and sell everything **as soon as possible!**



X



I'm so glad I was able to sell off those stocks before the price dropped! If Ms. Y hadn't said anything, I'd have lost so much.

Or so he thought ...

**Morning news report:**

FSA slams Company A  
Employee with surcharge  
payment order for insider  
trading. Offender avoided  
losses by obtaining  
information from colleague.

**Press release from Company A**

- Employee issued surcharge payment order due to insider trading
- Our deepest apologies to related parties
- Recommit ourselves to insider trading prevention and proper information handling

**Disciplinary actions**

- X (conducted insider trading): demotion
- Y (shared information): salary cut

**Outcome for business**

- Apologize and show accountability to business partner
- Business performance deteriorates

Many possible excuses



## X's Argument

It's not like I sold those stocks to **make a profit**, I just wanted to avoid losses. Is that still insider trading?

- It is still insider trading even if there was no intention to make a profit.
- You sold the stocks while having knowledge of negative information ahead of disclosure and before the price dropped, enabling you to avoid loss.
- Other shareholders, however, incurred loss, because they were unaware of the negative information.
- That is to say that unfair trading took place, which is deemed as insider trading and subject to regulations.

The stocks I sold were bought via the shareholding association. I thought **trading of stocks from the association** wouldn't count as insider trading.

- Indeed, there are plans where you can BUY a set amount of stocks via the shareholding association on a certain date every month on a regular basis, even while having knowledge of nonpublic material facts. This falls **outside** the scope of regulations.
- SELLING those stocks, however, is an action that **is subject** to regulations just like any other typical case of insider trading.

## Case 2: Conversing with family

**Miss W**



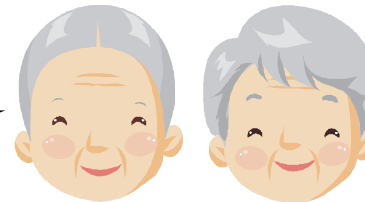
I work at Company B and live away from my family. I lead a satisfying life, because my job is rewarding.

A business partner, Company P, just informed me that they'll be sending more work to Company B in relation to a planned tie-up Company P has with Company Q. This really motivates me.



And then, the telephone rings ...

How's it going, dear? Everything okay with work?



**Miss W's Parents**

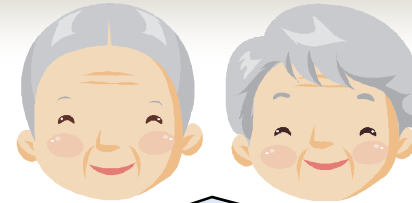
They live on their pensions and trade stocks in hopes of living more comfortably.

**Miss W**



Everything's great! And, guess what? There's this company called P that's thinking of doing a tie-up with a company called Q. If the deal takes off, we'll be getting lots more work, and I'll be extra busy. But, I'll keep plugging away!

We're happy to hear you're doing well.  
Take care of yourself.



**Miss W's  
Parents**

Now, the call has ended...

Well, it looks like Companies P and Q will form a business alliance. Business at Company P looks pretty stable, and that should fare well for dividends. Let's **buy some P stock** and hold on to it for a while.

Or so they thought ...

**Morning news report:**

FSA slams relatives of a Company B employee with surcharge payment order for insider trading after they were tipped by the employee and made a profit.

**Press release from Company B**

- Relatives of an employee were issued a surcharge payment order due to insider trading linked to information obtained from said employee regarding our business partner.
- Apologies for inflicting massive damage to Companies P and Q
- Promise to reexamine information management system

**Disciplinary actions and ramifications**

- W (shared information): demotion and salary cut followed by voluntary resignation
- Company executives: surrender a portion of their own compensation

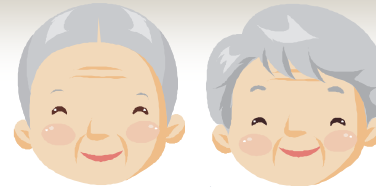




## W's Argument

It's too oppressive to not be able to talk to your own family about your job.

- Miss W's parents would have never become involved in insider trading if it weren't for the fact the Miss W shared classified information with them.
- Strict handling should be applied to information on business partners, especially material facts like business alliances.
- You must not divulge material facts to friends or family no matter whether the information pertains to your employer or others. The disseminator of material facts will be held liable if the recipient engages in insider trading.



## Miss W's Parents' Argument

We only bought P stock and haven't sold any of it. This means we've yet to profit from the account. We doubt this constitutes insider trading.

- Insider trading regulations apply whether the stocks bought have already been sold or not.
- If the purchase was carried out with the knowledge of nonpublic material facts, that is insider trading.
- Even if you haven't put the money into your pocket, it is still insider trading.



**Promote market integrity & investor confidence**