Brief Summary of Insider Trading
Regulations in Japan

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Department of Market Surveillance and Compliance
Japan Exchange Regulation

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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Insider trading is illegal in Japan.

- Insider trading is specifically prohibited by Articles 166 and 167 of the Financial Instruments and Exchange Act (FIEA).
- An English translation of the FIEA can be found below.

This document provides a brief summary of insider trading regulations in Japan.
Brief Summary of Insider Trading Regulations in Japan (1)

What is insider trading? What kinds of trading constitute insider trading and are prohibited?

Insider trading regulations are provided in Article 166 of the FIEA, which uses the following terminology and wording:

No Corporate Insider of a Listed Company, etc. who has obtained, under the specified circumstances, knowledge of nonpublic Material Facts shall Trade Specified Securities, etc. of the Listed Company, etc., until and unless such Material Facts shall have been made Public.

To paraphrase:

Any Corporate Insider possessing knowledge of nonpublic Material Facts is not allowed to Trade Specified Securities, etc. until and unless said facts have been Publically Disclosed.

Expanded explanations of the terms in red are provided in subsequent slides.
### Brief Summary of Insider Trading Regulations in Japan (2)

**Who is a Corporate Insider?**

Categories and examples of Corporate Insiders are as follows:

<table>
<thead>
<tr>
<th>Corporate Insider</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Officers, etc. of a Listed Company, etc.</td>
<td>Officers, employees, contract employees, part-time workers, temporary staff, etc.</td>
</tr>
<tr>
<td>(2) Persons who have the right to inspect account books of a Listed Company, etc.</td>
<td>Shareholders who have 3% or more of the voting rights at the general shareholders meeting</td>
</tr>
<tr>
<td>(3) Persons who have statutory authority</td>
<td>Public officers</td>
</tr>
<tr>
<td>(4) Persons who have executed, or are negotiating contracts with a Listed Company, etc. as a counterpart</td>
<td>Trading partners, the underwriting securities firm at the time of a new share allotment, attorneys-at-law, certified public accountants who conduct audits, etc.</td>
</tr>
<tr>
<td>(5) Other officers, etc. (When (2) and (4) is a legal entity.)</td>
<td>Managers, co-workers who received notification from the colleague in charge of the trading partners</td>
</tr>
</tbody>
</table>

**Note:** Any person who ceases to hold a position as a Corporate Insider is still considered a Corporate Insider for a year after his/her departure.
Do the regulations apply to those who obtain nonpublic Material Facts from Corporate Insiders?

A person who has obtained a Material Fact directly from a Corporate Insider is also subject to insider trading regulations.

In the event the person to whom a Corporate Insider has communicated a Material Fact is a juridical person and Officers, etc. of said juridical person have obtained knowledge of the fact in connection with their office, said Officers, etc. would be subject to the same regulations.

A Corporate Insider is also prohibited from tipping nonpublic Material Facts to an entity or from recommending that an entity engage in trading for said entity’s own profit or avoidance of loss.
What are Material Facts?

Material Facts are defined in Article 166 of the FIEA and in related rules and regulations. The following table shows examples of Material Facts. Some may have numerical standards to exclude immaterial facts.

### Decisions
- Offering of shares, Stock splits, and Stock swaps
- Acquisitions of treasury shares
- Business alliances, Mergers, etc.

### Events or Occurrences
- Damage arising from natural disasters or in the course of business operations
- Discovery of natural resources, etc.

### Financial Results
- Significant revisions to forecasts for business results or dividends

### Basket Clause
Material facts that may have significant impact on investment decisions of investors.

(Precedent) Huge fictitious sales or a fatality due to an adverse reaction to a drug
How can we make Public Disclosures of Material Facts?

Under the FIEA, Public Disclosures must be done in one of the ways listed below. Generally, (2) is the most popular way by which a listed company qualifies as having Publically Disclosed a Material Fact.

(1) Twelve hours have passed since the Material Fact was announced by at least two news media outlets.

(2) The Material Fact has been published on the official website of a stock exchange.

(3) An Annual Report, etc. that describes the Material Fact has been made available for public inspection.
What kinds of securities trading are subject to insider trading regulations?

**Trade** refers to not only purchase and sale of securities, but also exchanges, any secondary transfers and acquisitions for value, and all derivative transactions.

**Specified Securities, etc.** are not limited to shares but also encompass derivatives, etc.
What are the penalties for violating insider trading regulations?

- **Person:** Imprisonment for up to 5 years or a fine of up to 5 million yen, or both
- **Where a corporation and/or its assets are involved:** A fine of up to 500 million yen on the corporation
- **Confiscation of property --** Property received through insider trading is confiscated, regardless of profit
- **Administrative Monetary Penalty --** Equivalent to Profit
Remarks

- Insider trading related to Tender Offer is specified in Article 167 of the FIEA and slightly differs from the trading specified in Article 166 of the FIEA, which was explained above.

- If you would like to know more about the market surveillance conducted by Japan Exchange Regulation (JPX-R), please visit:
