

Internal training materials

What is insider trading?

Presented by: Japan Exchange Regulation

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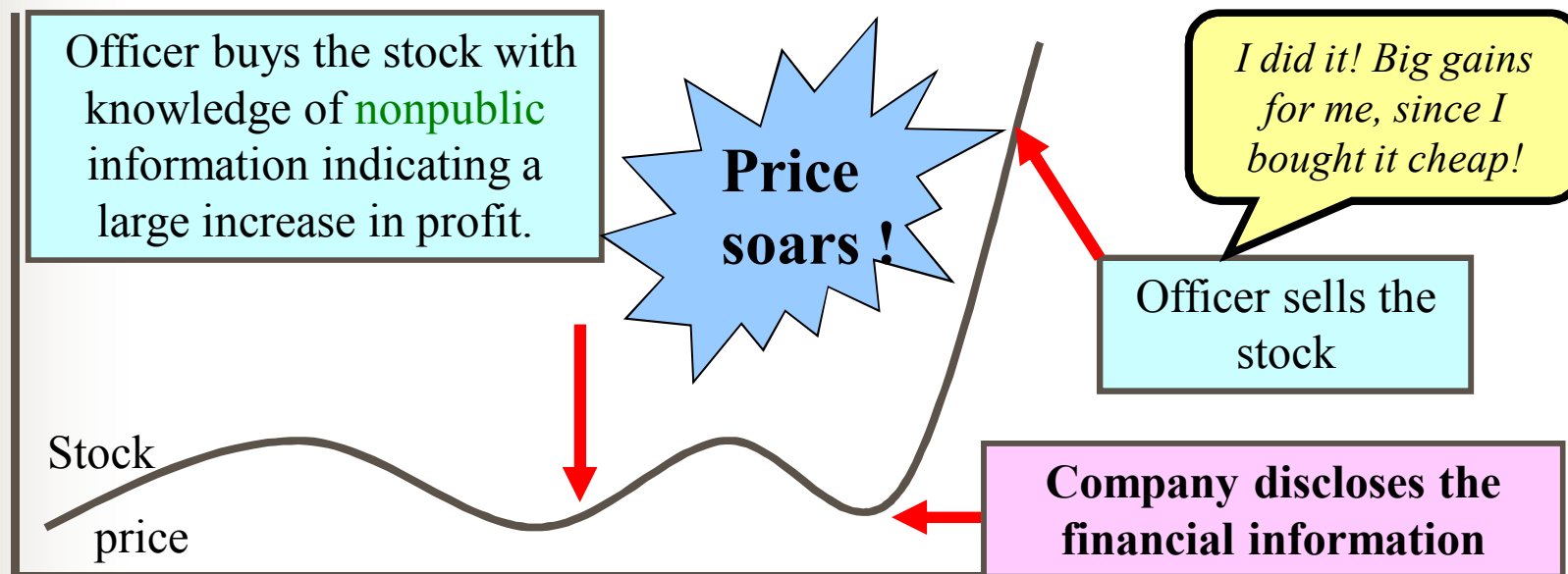
This document provides a brief summary of insider trading regulations in Japan and is intended for educational purposes only. Contents have been recapitulated and omitted for perspicuity. Please consult a legal advisor as needed.

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Q1. Let's think about the case below.

A company officer of a Listed Company comes up with the following idea:
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?**



Insider trading refers to dishonest trading in which the trader uses information that general investors have yet to obtain.

Q2. What if you become involved in insider trading?

Criminal penalties could be imposed.

- **Fines of up to 5 million yen and/or imprisonment of up to 5 years**
- **Confiscation of property (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!

Or, can be forced to make Administrative Monetary Penalty Payments

(Administrative sanctions by Financial Services Agency)

- **Administrative monetary penalty payment (pay an amount equivalent to the profit)**

Amount = the difference between the highest (lowest) price within two weeks after the disclosure and the actual buying (selling) price

Moreover, the person can be subject to internal disciplinary action, the employer is exposed to the risk of losing credibility, and other adverse effects may ensue!



Q3. What should you pay attention to when you trade stocks?

- **Do you have knowledge of insider information pertaining to the company whose stock you want to trade?**
- **Have you confirmed the internal rules of our company with respect to stock trading?**

If you have any questions about whether your trading constitutes insider trading or about the internal rules, please consult the department in charge.

Q4. What is insider information?

Information that might have significant impact on stock price

For example, information on:

- **Offering of Shares**
 - **Stock splits**
 - **Mergers**
 - **Business alliances**
 - **Damage by disasters**
 - **Development of new products**
 - **Corporate bankruptcy**
- **Takeover bids (TOB)**
 - **Substantial revision to earnings or dividend forecasts**
 - **Huge fictitious sales**
 - **Manipulation of product test figures**

and others ...

**These types of information are only a small part of the whole.
It is forbidden to trade with knowledge of such insider information
prior to its disclosure.**



Q5. Is leaking information also considered insider trading?

Although it is not a crime to leak information, what if you were to:

- Casually let it slip to your family over dinner that the company is merging?
- Happen to accidentally mention to a business partner during a meeting that the company's performance has drastically deteriorated?

→A member of your family or someone at a partner company might be compelled to engage in insider trading based on the information you gave the person!

It is highly likely that you might **indirectly prompt** those around you to become involved in insider trading.

If it comes to light that you **leaked information**, your employer's information management will also be put to question.

Is it also wrong to intentionally furnish such information?

(Continued from previous slide)

It is **illegal** to intentionally prompt someone to engage in insider trading!

Examples:

- **You find out about** a substantial upward revision to an earnings forecast that is scheduled to be disclosed soon, **and then...**
Share that information with the intention of making others gain profits from the 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** under the same intentions as above even if you do not share any insider information.

Never furnish any information unless it is necessary in the course of your duties!

Q6. Do these cases also constitute insider trading?

Common misconceptions

- Bought the stock, but did not sell it after the disclosure
- Traded, but hardly made a profit (or even incurred a loss)
- Bought just one share (or the minimum trading unit)

All these cases constitute insider trading **if conducted with the knowledge of nonpublic insider information.**

Please avoid acting on your own judgment and consult with the department in charge if you have any questions.

Every transaction in the market is under surveillance by authorities and stock exchanges. Data involved in all transactions is also preserved. **Nothing is beyond reach!**



Please write about the internal rules at your organization.

End