



Regulatory Updates in Japan

September 21, 2015

Japan Securities Dealers Association

Overview

In Japan, in the context of the government's Growth Strategy to boost private investment, various regulatory reforms in securities markets are on going. Recent key reforms are as follows.

Equity Markets

- In June 2015, Japan's "Corporate Governance code" formulated by JPX and JFSA came into effect.
- In May 2015, JSDA established an "Equity-based crowd funding system" and a "Shareholders community system."

Bond Markets

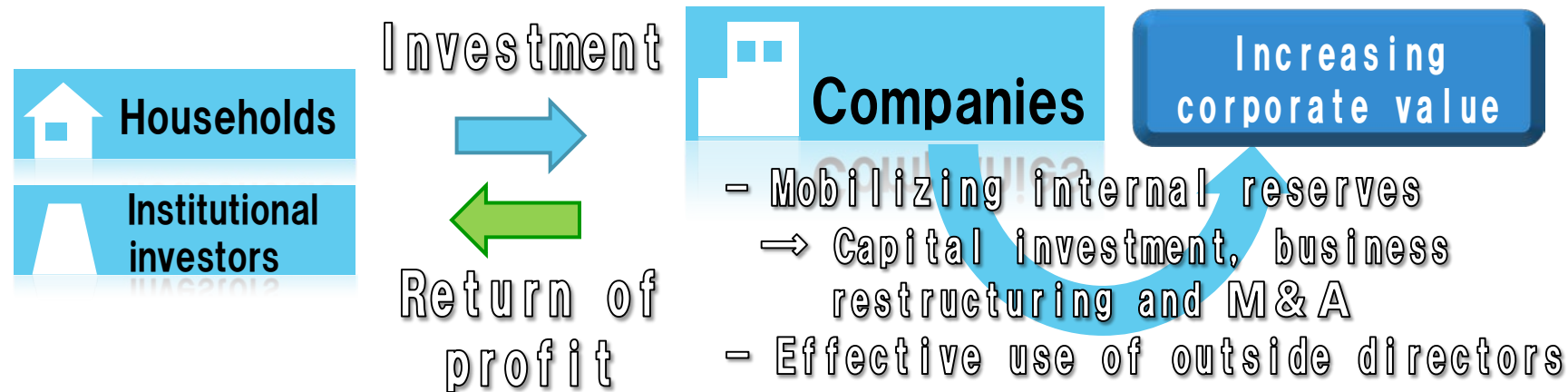
- In November 2015, JSDA is launching a "New Price Information System" for corporate bonds.

Investment Trusts

- In December 2014, JFSA, JITA and JSDA implemented a series of reforms to improve efficiency and transparency of asset management.

I . Introduction of Corporate Governance Code

The Japanese government announced its “Japan Revitalization Strategy” in June 2013. In the revised Strategy issued in June 2014, the government introduced “Restoring Japan’s earning power” as a major reform. The “Corporate Governance Code” was its first key policy measure and came into effect in June 2015.



General principles in the “Corporate Governance Code”

- Comply or Explain Approach -

- Securing the rights and equal treatment of shareholders
- Appropriate cooperation with stakeholders other than shareholders
- Ensuring appropriate information disclosure and transparency
- Responsibilities of the board
- Dialogue with shareholders

II . Establishment of New Systems for Venture Companies



- Start-up/Early Stage
 - Equity-based crowd funding
 - Fund-based crowd funding

- Early Stage/
Growth Stage
 - Venture Capital (VC) Fund
 - Private Equity (PE) Fund
 - Regional Growth Fund

- Growth Stage/
Mature Stage
 - Shareholders community

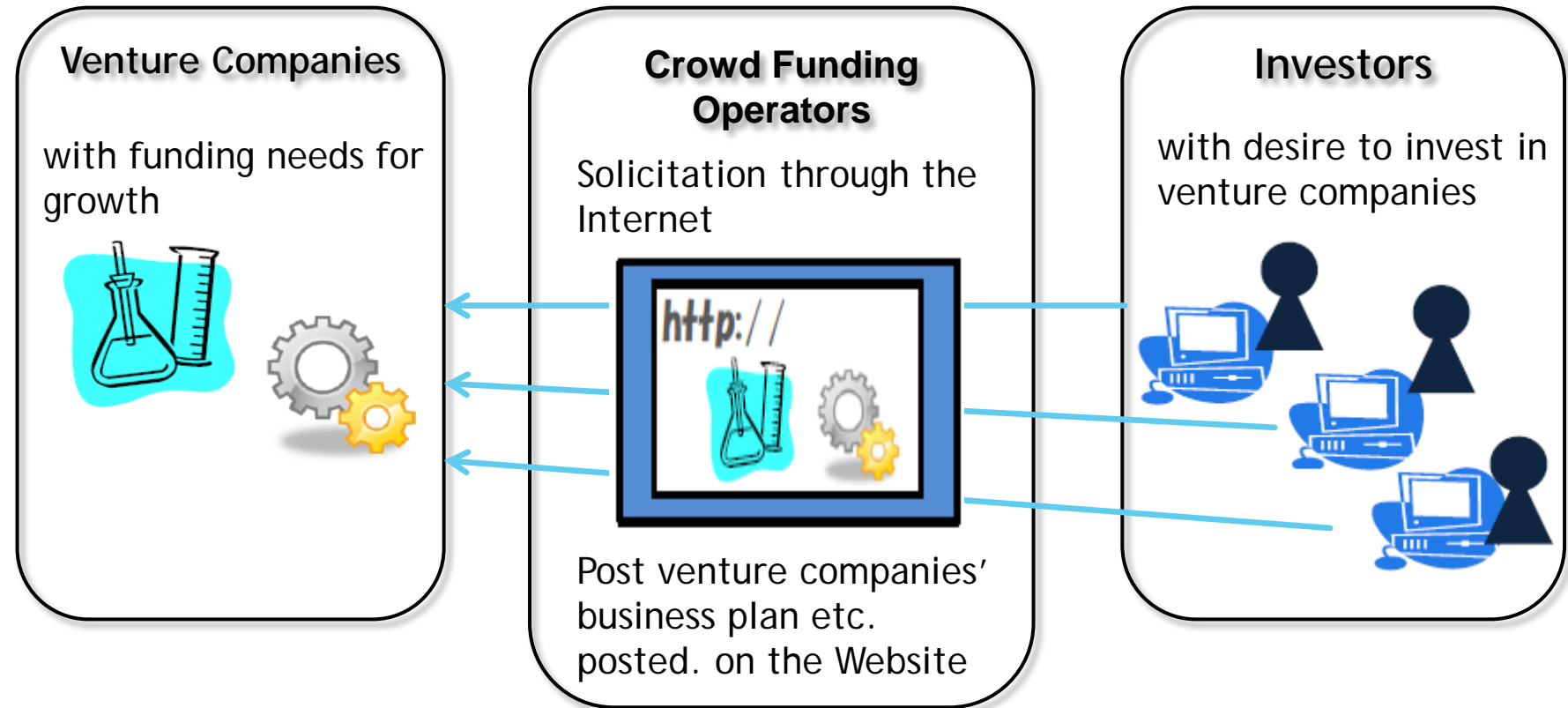
- Exit
 - Initial Public Offering (IPO)
 - M&A

II -1. Equity-based Crowd Funding System

In May 2015, JSDA established an equity-based crowd funding system which is a framework that links new/growing companies with investors through the Internet. The system facilitates those companies' financing by enabling them to collect small equity investments from a wide range of investors.

Crowd Funding Operators:

1. Examine issuers and take measures to avoid antisocial forces
2. Solicit by providing detailed information to investors only through the Internet
3. Obtain confirmation document from investors
4. Establish internal control systems, and
5. Can not induce people to invest in companies' stocks by means other than the Internet

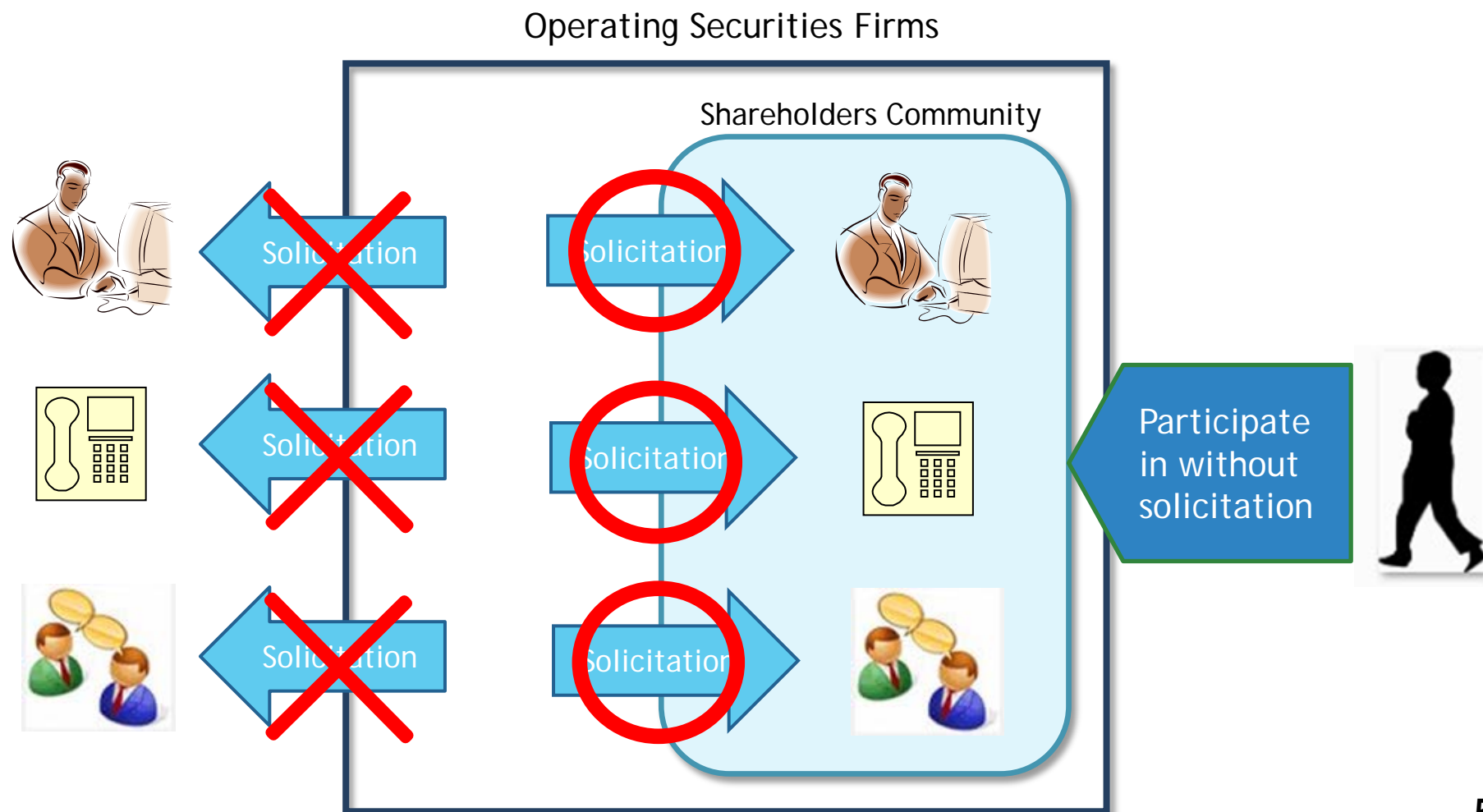


II-2. Shareholders Community System

In May 2015, JSDA established a shareholders community system which is a framework to allow securities firms to solicit investors participating in the community. The system satisfies the needs of unlisted regional companies to provide investors with opportunities for trading and liquidating shares of such companies.

Operating Securities Firms:

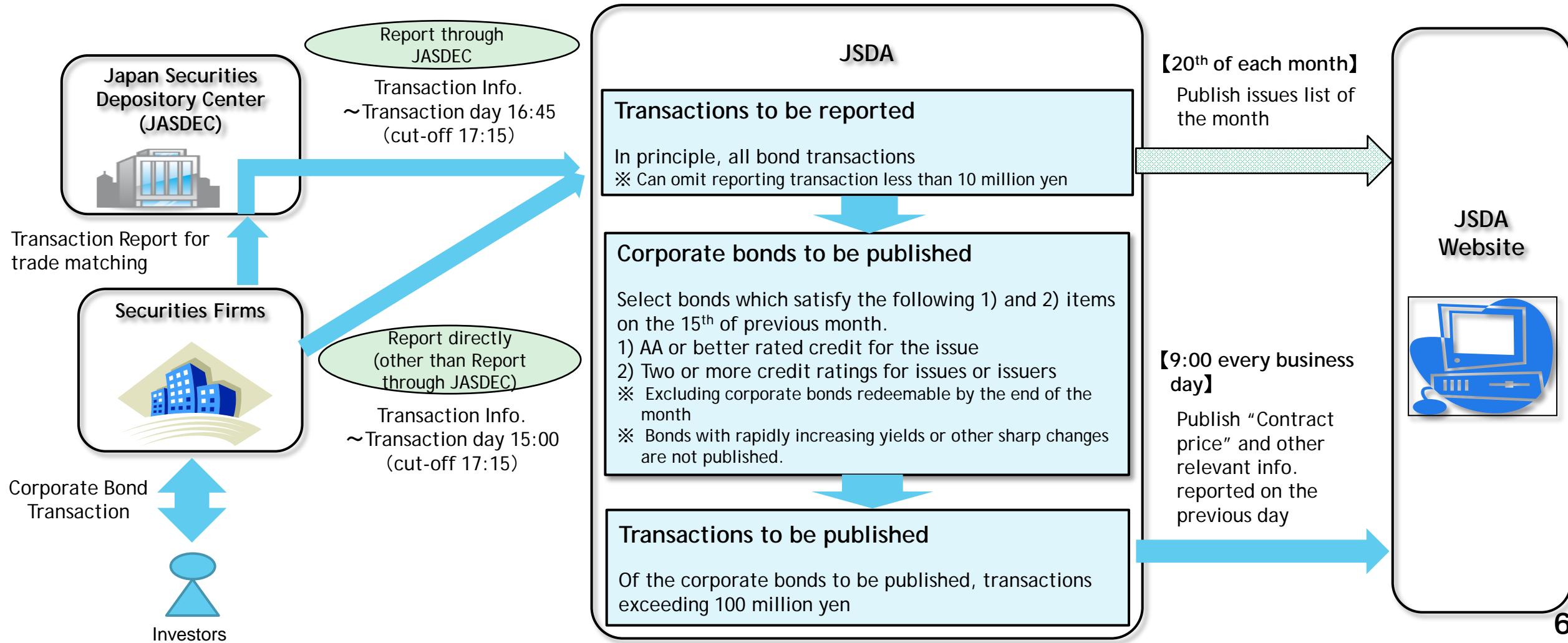
1. Get designation by JSDA as an operating securities firm
2. Examine issuers and take measures to avoid antisocial forces
3. Solicit by providing detailed information to investors within the community
4. Obtain confirmation document from investors
5. Establish internal control systems, and
6. Can not induce people who are outside of the community either to buy the stock or to participate in the community



III. Launch of a New Price Information System



JSDA has decided to launch a new system to disseminate real contract prices of OTC corporate bond transactions starting from November 2, 2015. Transactions of double A or higher rated corporate bonds exceeding 100 million yen (approx. 800,000 dollars) or more will be subject to public dissemination.



IV. Implementation of a series of investment trust reform



In December 2014, JFSA, JITA and JSDA implemented a series of reforms, according to proposals published in December 2012 by the “Working Group to Review the Law on Investment Trusts and Investment Companies” of JFSA.

Topics	Details	Responsible Organization
Make Investment Trust Operations More Efficient	<ul style="list-style-type: none">• Ease requirements for consolidation of investment trusts and facilitate it to realize more efficient investment trust operation	JFSA
Make Investment Report More Investor-Friendly	<ul style="list-style-type: none">• Exempt some statements of the investment report from mandatory delivery to investors• Use graphs, diagrams, and plain language in the report• Make it easy to compare with other investment trusts	JFSA
Provide Information on Total Return	<ul style="list-style-type: none">• Provide information on total return, which is an accumulation of loss and profit including dividends from the point of initial investment	JSDA
Provide Information on Commissions, Trust Fees, and Risk	<ul style="list-style-type: none">• Provide more information on commissions, trust fees, investment risk, etc., and make it easy to understand for investors	JFSA
Limit Risk	<ul style="list-style-type: none">• Require the diversification of credit risk and set up a limit on derivatives risk	JITA JSDA