

Report on insider trading (FY2017 to FY2019)

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IDS International Disclosure Services Corporation
CORPORATION

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The officers and employees of listed companies, together with all participants in capital markets, must work to combat insider trading as a matter of the utmost importance. Information management, education on the dangers of unlawful trading, and other measures all have significant costs. Accordingly, when choosing what measures to enact, companies usually perform some sort of cost-benefit analysis and implement a combination of the measures deemed most effective.

In this report, we look at the circumstances that lead to insider trading, based on quantitative data, with the aim of assessing which countermeasures are effective and why such measures are necessary, as well as gaining insights on how to enact and maintain more effective countermeasures.

1. Scope of research

We looked at cases related to insider trading that resulted in collection of a surcharge or referral to a district public prosecutor by the Securities and Exchange Surveillance Commission (the “SESC”), during the three years from fiscal 2017 to fiscal 2019 (April 1, 2017 to March 31, 2020). For the purposes of this report, we considered all violations committed by the same entity as a single case, and we classified cases by the type of material information acquired, the entity committing the act (corporation or individual), whether the entity was Japanese or foreign, the type of violation, the source of the material information, and the relationship of the entity to the issuer of the shares, etc. An overview of the results of our research is provided at the end of this report, and our main policies adopted when compiling data were as follows.

Main research policies

1. Our aim was to look at the circumstances that led to cases related to insider trading, so we collected data on all cases when the SESC made a recommendation that a case was related to insider trading, including cases for which legal proceedings are still ongoing, cases where the accused was found not guilty, and cases when the SESC dropped its recommendation.
2. When multiple entities were involved in insider trading related to a single issuer, we counted each entity that was the subject of a recommendation as a separate case.
3. When a single entity was accused of insider trading related to multiple issuers, we counted it as a single case.
4. When a single party was involved in different types of violation, we counted it as a single case, in the order: 1) insider trading, 2) provision of information, and 3) recommendation to trade.

2. Number of violations by year

In fiscal 2017, 26 violations were subject to recommendation by the SESC, 30 in 2018, and 25 in 2019. The number of violations has not changed significantly each year, and does not appear to be following any particular trend (table 1, chart 1). The same is true looking back as far as fiscal 2011, although years prior to fiscal 2017 are outside the scope of this report.

Table 1 Number of violations by year

	Number of cases
Fiscal 2017 (from April 1, 2017)	26
Fiscal 2018 (from April 1, 2018)	30
Fiscal 2019 (from April 1, 2019)	25
Total	81

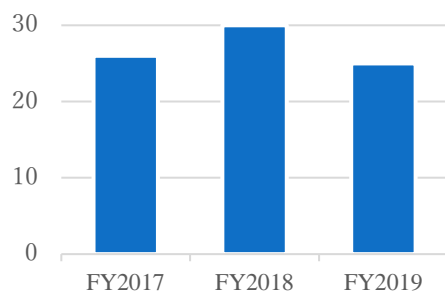


Chart 1 Number of violations by year

3. Corporations versus individuals

We classified cases based on whether they were committed by corporations or individuals. We also looked at the number of recommendations made against parties domiciled in Japan versus those domiciled overseas, for both corporations and individuals (table 2, chart 2). Cases by individuals domiciled in Japan made up the overwhelming majority of the total number of cases, at 96.3% of the total, or 78 cases. Only a handful of cases were reported for domestic corporations (1 case, or 1.2% of the total) and individuals domiciled overseas (2 cases, or 2.5% of the total).

Table 2 Corporations versus individuals (Japan/overseas)

		Number of cases	
Japan	Corporation	1	(1.2%)
	Individual	78	(96.3%)
Overseas	Corporation	0	(0%)
	Individual	2	(2.5%)
Total		81	

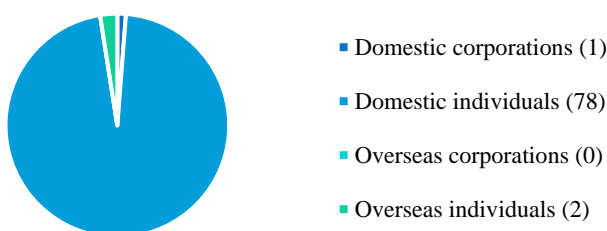


Chart 2 Corporations versus individuals (Japan/overseas)

4. Relationship with issuer

We classified cases based on the relationship between the entities violating laws and regulations and the issuers whose shares, etc. were subject to insider trading. We specified three types of relationship: officer or employee of the issuer, customer or supplier of the issuer, and other (table 3, chart 3). Officers and employees of the issuer made up the largest number of cases at 42, or 51.9% of the total, but customers and suppliers of the issuer also accounted for nearly 20% of the total, with 15 cases (18.5%).

Table 3 Relationship with issuer

	Number of cases	
Officer or employee	42	(51.9%)
Customer or supplier	15	(18.5%)
Other	24	(29.6%)
Total	81	

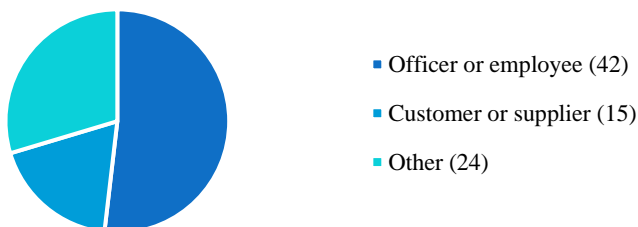


Chart 3 Relationship with issuer

Customers and suppliers of issuers leaked information in a variety of ways, including cases where they clearly leaked insider information, but also cases where they provided information that was not clearly identified as insider information but that could affect share prices. Yet unlike cases involving their own officers and employees, issuers may find it difficult to educate customers and suppliers on the dangers of insider trading or take other direct measures.

Still, issuers can take certain measures to combat insider trading by customers and suppliers. For example, when choosing customers and suppliers, issuers can ask counterparties about their measures to combat insider trading and how serious they are about these countermeasures, and they can also place greater importance on counterparties' measures to tackle insider information as a selection criteria. Issuers can also request that customers and suppliers create lists of persons with insider information, and ask them to attend seminars on insider trading conducted by exchanges, etc.

5. Types of violations

The SESC classifies violations related to insider trading into three types: insider trading, provision of information, and recommendation to trade. Based on the SESC's classifications, in the past three years, there were 62 cases of insider trading (76.6% of the total), 13 (16.0%) cases of provision of information, and 6 (7.4%) cases of recommendation to trade, meaning that in terms of the number of violations reported, insider trading accounted for more than any other category (figure 4, chart 4).

Note, however, that when a single party was involved in multiple violations, we counted it as a single case, in the order: 1) insider trading, 2) provision of information, and 3) recommendation to trade. This means that the number of cases of insider trading accounts for a greater proportion of the total than the actual number.

Table 4 Types of violation

	Number of cases	
Insider trading	62	(76.6%)
Provision of information	13	(16.0%)
Recommendation to trade	6	(7.4%)
Total	81	

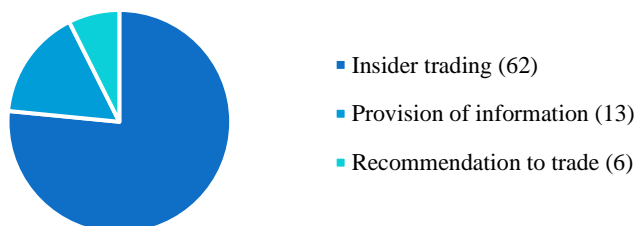


Chart 4 Types of violation

6. Sources of information for insider trading

We compiled data on the sources of insider information for 62 cases that the SESC recommended that involved insider trading, based on four categories: obtained through work, from a person known to the insider trader (acquaintance), from a colleague, and from a relative. The results are shown in table 5 (also see chart 5). Information obtained through work and used for unauthorized purposes made up a little over half of the cases, at 34 (54.8% of the total). Information acquired from acquaintances made up the greatest number of cases when information was acquired from other people, at 23 (37.1% of the total). Although cases of information acquired from colleagues and relatives did occur, the number was limited at 3 (5%) and 2 (3.2%) respectively.

Table 5 Sources of information for insider trading

	Number of cases (% of 62 cases of insider trading)	
Work	34	(54.8%)
Acquaintance	23	(37.1%)
Colleague	3	(4.9%)
Relative	2	(3.2%)

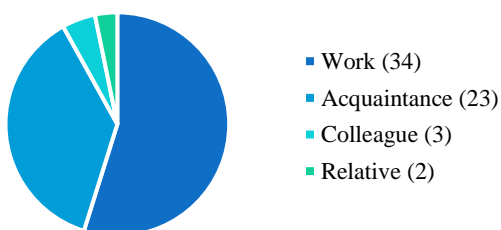


Chart 5 Sources of information for insider trading

Unauthorized use of insider information obtained at work

Furthermore, we also classified the 34 cases occurring from information obtained through work into two categories: those caused by officers and employees at the issuer, and those caused by the customers and suppliers of the issuer. The results are shown in table 6 (also see chart 6). The number of cases caused by officers and employees was 25 (73.5%) of the total, versus 9 cases (26.5%) caused by customers and suppliers. Measures to combat insider trading among officers and employees at one's own company are of vital importance, but we must also take measures to combat insider trading by any customers and suppliers receiving insider information.

Table 6 Persons committing insider trading using information obtained at work

	Number of cases (% of 34 cases of insider trading)	
Officer or employee	25	(73.5%)
Customer or supplier	9	(26.5%)

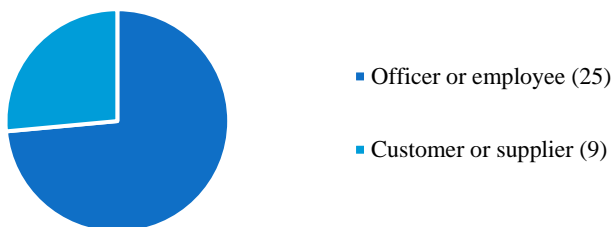


Chart 6 Persons committing insider trading using information obtained at work

7. Measures to combat insider trading: education, insider information lists, and information security

Education intended to combat insider trading can be broadly split into two categories: education about information leaks, and education about the dangers of insider trading. We can assume the former is effective against insider trading based on information leaked by acquaintances, colleagues, and relatives of the insider trader (chart 5; a combined 45.2% of the total), whereas the latter targets insider trading based on information obtained at work (chart 5; 54.8% of the total). The data show that both types of education are equally important.

Besides education, lists of people with insider information are one of the most common measures used to prevent insider trading. Such lists can be effective in preventing the spread of information by people on the list, helping to minimize the number of people receiving insider information, and preventing the leakage and unauthorized use of insider information, provided they are functioning effectively and broadly across an organization. Still, the creation and maintenance of such lists places a considerable burden on large companies with many customers and suppliers. Accordingly, measures should be taken to create digital lists and designing them in a way that reduces the burden both on people registering information and people on the list.

In this report, we considered the relationship between information security and insider trading, and researched recommendations made by the SESC. There is a question mark, however, over whether persons involved in cases when information is leaked by being sent to the wrong recipient and other information security issues or hacking, etc. would be classified as “Information Recipients, etc.” under the Financial Instruments and Exchange Act (i.e. someone violating this law by using material information for unauthorized purposes). As such, the SESC might not issue a recommendation in such cases, and so we did not include them in our research. As a result, we have chosen not to look at information security as a means of preventing insider trading in this report.

Research results (full list) (April 1, 2017 to March 31, 2020)

No.	Date of recommendation / referral	Industry of stock traded	Type of material information	Individual / corporation	Violation	Source for obtaining information	Relationship with stock traded	Action taken
1	May 2017	Manufacturing	Delisting	Individual	Insider trading	Work	Customer or supplier	Recommendation of surcharge payment order
2	June 2017	Services	TOB	Individual	Provision of information	Work	Officer or employee	Referral to Osaka District Public Prosecutors
3	June 2017	Services	TOB	Individual	Insider trading	Acquaintance	Other	Referral to district public prosecutors
4	June 2017	Manufacturing	Worsening business performance	Individual (overseas)	Insider trading	Work	Customer or supplier	Recommendation of surcharge payment order
5	September 2017	Manufacturing	TOB	Individual	Provision of information	Work	Officer or employee	Recommendation of surcharge payment order
6	September 2017	Manufacturing	TOB	Individual	Insider trading	Acquaintance	Other	Recommendation of surcharge payment order
7	November 2017	Services	Downward revision to earnings forecasts	Individual	Insider trading	Work	Officer or employee	Recommendation of surcharge payment order
8	December 2017	Manufacturing	Business partnership	Individual	Insider trading	Acquaintance	Other	Recommendation of surcharge payment order
9	December 2017	Finance	Share buyback, business partnership	Individual	Insider trading	Work	Officer or employee	Recommendation of surcharge payment order
10	December 2017	Services	TOB	Individual	Insider trading	Work	Customer or supplier	Recommendation of surcharge payment order
11	December 2017	Services	TOB	Individual	Insider trading	Acquaintance	Other	Recommendation of surcharge payment order
12	January 2018	Manufacturing	Extraordinary losses	Individual	Insider trading	Work	Officer or employee	Referral to district public prosecutors
13	January 2018	Manufacturing	Extraordinary losses	Individual	Insider trading	Acquaintance	Other	Referral to district public prosecutors
14	January 2018	Finance	Business partnership	Individual	Provision of information	Work	Officer or employee	Recommendation of surcharge payment order

No.	Date of recommendation / referral	Industry of stock traded	Type of material information	Individual / corporation	Violation	Source for obtaining information	Relationship with stock traded	Action taken
15	January 2018	Finance	Business partnership	Individual	Insider trading	Relative	Other	Recommendation of surcharge payment order
16	January 2018	Finance	Business partnership	Individual	Insider trading	Work	Customer or supplier	Recommendation of surcharge payment order
17	February 2018	Services	TOB	Individual	Insider trading	Relative	Other	Recommendation of surcharge payment order
18	February 2018	Services	Asset transfer	Individual	Insider trading	Work	Customer or supplier	Recommendation of surcharge payment order
19	February 2018	Services	Asset transfer	Individual	Insider trading	Work	Customer or supplier	Recommendation of surcharge payment order
20	February 2018	Services	Business partnership	Individual	Insider trading	Work	Officer or employee	Recommendation of surcharge payment order
21	March 2018	Services	Stock split, upward revision to earnings/dividend forecasts	Individual	Provision of information	Work	Officer or employee	Recommendation of surcharge payment order
22	March 2018	Services	Stock split, upward revision to earnings/dividend forecasts	Individual	Insider trading	Acquaintance	Other	Recommendation of surcharge payment order
23	March 2018	Services	TOB	Individual	Insider trading	Work	Customer or supplier	Recommendation of surcharge payment order
24	March 2018	Manufacturing	Business partnership	Individual	Insider trading	Work	Officer or employee	Recommendation of surcharge payment order
25	March 2018	Manufacturing	Business partnership	Individual	Insider trading	Work	Officer or employee	Recommendation of surcharge payment order
26	April 2018	Services	Upward revision to earnings forecasts, stock split	Individual	Insider trading	Acquaintance	Other	Recommendation of surcharge payment order
27	May 2018	Services	Dividend increase	Individual	Insider trading	Acquaintance	Other	Recommendation of surcharge payment order
28	June 2018	Manufacturing	Dividend increase	Individual	Insider trading	Work	Officer or employee	Referral to district public prosecutors

No.	Date of recommendation / referral	Industry of stock traded	Type of material information	Individual / corporation	Violation	Source for obtaining information	Relationship with stock traded	Action taken
29	June 2018	Services	TOB	Individual	Insider trading	Acquaintance	Officer or employee	Recommendation of surcharge payment order
30	August 2018	Finance	TOB	Individual	Recommendation to trade	Work	Officer or employee	Recommendation of surcharge payment order
31	August 2018	Manufacturing	Upward revision to earnings forecasts	Individual	Insider trading	Acquaintance	Other	Recommendation of surcharge payment order
32	October 2018	Services	TOB	Individual	Insider trading	Work	Officer or employee	Referral to district public prosecutors
33	November 2018	Services	Business partnership	Individual	Insider trading	Work	Officer or employee	Referral to district public prosecutors
34	November 2018	Services	Business partnership	Individual	Provision of information	Work	Officer or employee	Referral to Tokyo district public prosecutors
35	November 2018	Services	Business partnership	Individual	Insider trading	Acquaintance	Other	Referral to district public prosecutors
36	November 2018	Manufacturing	Share buyback, upward revision to dividend forecasts	Individual	Recommendation to trade	Work	Officer or employee	Recommendation of surcharge payment order
37	November 2018	Services	Business integration	Individual	Insider trading	Colleague	Customer or supplier	Recommendation of surcharge payment order
38	December 2018	Services	TOB	Individual	Provision of information	Work	Customer or supplier	Referral to Osaka District Public Prosecutors
39	December 2018	Services	TOB	Individual	Insider trading	Acquaintance	Other	Referral to district public prosecutors
40	December 2018	Services	Capital increase by third-party allotment, becoming subsidiary	Individual	Recommendation to trade	Work	Officer or employee	Recommendation of surcharge payment order
41	December 2018	Services	Business partnership	Corporation	Insider trading	Acquaintance	Other	Recommendation of surcharge payment order
42	January 2019	Services	Agreement on entrustment of operations	Individual	Insider trading	Acquaintance	Other	Recommendation of surcharge payment order
43	March 2019	Manufacturing	Business transfer	Individual	Insider trading	Work	Officer or employee	Recommendation of surcharge payment order

No.	Date of recommendation / referral	Industry of stock traded	Type of material information	Individual / corporation	Violation	Source for obtaining information	Relationship with stock traded	Action taken
44	March 2019	Manufacturing	Business transfer	Individual	Insider trading	Work	Officer or employee	Recommendation of surcharge payment order
45	March 2019	Manufacturing	Business transfer	Individual	Insider trading	Work	Officer or employee	Recommendation of surcharge payment order
46	March 2019	Manufacturing	Business transfer	Individual	Insider trading	Work	Officer or employee	Recommendation of surcharge payment order
47	March 2019	Manufacturing	Business transfer	Individual	Insider trading	Work	Officer or employee	Recommendation of surcharge payment order
48	March 2019	Manufacturing	Business transfer	Individual	Insider trading	Work	Officer or employee	Recommendation of surcharge payment order
49	March 2019	Manufacturing	Application for Civil Rehabilitation Act	Individual	Insider trading	Work	Officer or employee	Recommendation of surcharge payment order
50	March 2019	Manufacturing	Application for Civil Rehabilitation Act	Individual	Insider trading	Work	Officer or employee	Recommendation of surcharge payment order
51	March 2019	Manufacturing	Application for Civil Rehabilitation Act	Individual	Insider trading	Work	Officer or employee	Recommendation of surcharge payment order
52	March 2019	Services	TOB	Individual	Insider trading	Acquaintance	Other	Recommendation of surcharge payment order
53	March 2019	Services	TOB	Individual	Provision of information	Work	Officer or employee	Recommendation of surcharge payment order
54	March 2019	Services	TOB	Individual	Insider trading	Acquaintance	Other	Recommendation of surcharge payment order
55	March 2019	Services	TOB	Individual	Insider trading	Acquaintance	Customer or supplier	Recommendation of surcharge payment order
56	May 2019	Services	Capital increase	Individual	Recommendation to trade	Work	Officer or employee	Recommendation of surcharge payment order
57	May 2019	Manufacturing	Business partnership	Individual	Provision of information	Work	Customer or supplier	Recommendation of surcharge payment order

No.	Date of recommendation / referral	Industry of stock traded	Type of material information	Individual / corporation	Violation	Source for obtaining information	Relationship with stock traded	Action taken
58	May 2019	Manufacturing	Business partnership	Individual	Insider trading	Acquaintance	Other	Recommendation of surcharge payment order
59	June 2019	Manufacturing	Falsification of product inspection data	Individual	Insider trading	Work	Officer or employee	Recommendation of surcharge payment order
60	June 2019	Manufacturing	Falsification of product inspection data	Individual	Insider trading	Work	Officer or employee	Recommendation of surcharge payment order
61	June 2019	Services	Upward revision to earnings forecasts	Individual	Provision of information	Work	Officer or employee	Recommendation of surcharge payment order
62	June 2019	Services	Upward revision to earnings forecasts	Individual	Insider trading	Acquaintance	Other	Recommendation of surcharge payment order
63	July 2019	Manufacturing	Capital partnership	Individual	Insider trading	Acquaintance	Other	Recommendation of surcharge payment order
64	September 2019	Manufacturing	Capital increase by third-party allotment, business partnership	Individual	Insider trading	Work	Officer or employee	Recommendation of surcharge payment order
65	September 2019	Manufacturing	Upward revision to earnings forecasts	Individual	Provision of information	Work	Officer or employee	Recommendation of surcharge payment order
66	September 2019	Manufacturing	Upward revision to earnings forecasts	Individual	Insider trading	Acquaintance	Other	Recommendation of surcharge payment order
67	September 2019	Services	Share buyback	Individual	Recommendation to trade	Work	Officer or employee	Recommendation of surcharge payment order
68	October 2019	Services	Downward revision to earnings forecasts	Individual	Insider trading	Work	Officer or employee	Recommendation of surcharge payment order
69	November 2019	Services	Capital increase by third-party allotment	Individual	Provision of information	Work	Officer or employee	Referral to Tokyo district public prosecutors
70	November 2019	Services	Capital increase by third-party allotment	Individual	Insider trading	Acquaintance	Other	Referral to district public prosecutors
71	November 2019	Services	Capital increase by third-party allotment	Individual	Provision of information	Work	Customer or supplier	Recommendation of surcharge payment order

No.	Date of recommendation / referral	Industry of stock traded	Type of material information	Individual / corporation	Violation	Source for obtaining information	Relationship with stock traded	Action taken
72	November 2019	Services	Capital increase by third-party allotment	Individual	Provision of information	Work	Customer or supplier	Recommendation of surcharge payment order
73	November 2019	Services	Capital increase by third-party allotment	Individual	Insider trading	Relative	Other	Recommendation of surcharge payment order
74	November 2019	Services	Capital increase by third-party allotment	Individual	Insider trading	Acquaintance	Other	Recommendation of surcharge payment order
75	December 2019	Services	Improper accounting	Individual	Insider trading	Work	Officer or employee	Recommendation of surcharge payment order
76	December 2019	Services	Improper accounting	Individual	Insider trading	Work	Officer or employee	Recommendation of surcharge payment order
77	December 2019	Services	Capital partnership	Individual (overseas)	Insider trading	Work	Customer or supplier	Recommendation of surcharge payment order
78	December 2019	Manufacturing	TOB	Individual	Insider trading	Work	Customer or supplier	Recommendation of surcharge payment order
79	January 2020	Services	Corporate reorganization	Individual	Insider trading	Work	Officer or employee	Recommendation of surcharge payment order
80	January 2020	Services	Corporate reorganization	Individual	Insider trading	Colleague	Officer or employee	Recommendation of surcharge payment order
81	January 2020	Services	Corporate reorganization	Individual	Recommendation to trade	Work	Officer or employee	Recommendation of surcharge payment order

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