

<Note: This script has been written for the document entitled "Outline of insider trading", which is currently posted on the official website of Japan Exchange Group, Inc. Feel free to modify the contents to fit the situation at your organization.>

Slide 1

Have you heard the term "insider trading"?

I think all of you who came here today to attend this training know that it is prohibited.

Our objective for today is to learn how to avoid insider trading and prevent others from getting involved in insider trading.

We are going to talk about what insider trading actually is; what kinds of punishment you are subject to if you engage in insider trading; what you have to pay attention to when employees of a listed company, like us, trade their company's stock; and more by using some examples. **<Note: Omit the phrase "by using some examples" if examples will not be used.>**

The training aim is to make it easy to understand and to briefly cover insider trading in a relatively short period of time. Therefore, we cannot go over every minute detail of insider regulations.

Also, if you find something unclear during today's talk, or if you feel a little confused in the event you actually trade stocks, please contact the department in charge **<Note: Indicate the name of the relevant department at your organization.>** for more information.

Slide 2

One of the main objectives for today is to keep you from engaging in insider trading. So, let's first take a look at insider trading regulations.

Please look at slide 2.

Let me give you a typical example of insider trading here.

For those who have not traded stocks, please think about what insider trading means.

Let's assume that a person at a listed company who worked on data collection for earnings forecast discovered a substantial upward revision.

The fact was reported to a corporate officer in charge and to the board.

Then, another corporate officer who heard this news at the board meeting decided to purchase the stock thinking: If this information goes public, the stock price will definitely rise. So, if I buy this stock before this information reaches general investors, and then sell it after the information goes public, I can make money!

What do you think of this behavior?

Usually, when financial information like this is made public, stock prices rise.

As such, it will be pretty easy for people like the corporate officer to make a profit if they buy or sell stocks ahead of general investors.

Wouldn't you be reluctant to trade in such an unfair market?

[Now, let's see why it is unfair.

Only people inside a company can obtain information, such as revisions to earnings forecasts, which may influence the stock price. Meanwhile, people outside the company cannot. Outsiders, like general investors, usually decide to buy stocks based on public information while expecting the company will make money, pay good dividends, and the stock price will rise.

If general investors find out that insiders trade stocks based on the information that insiders were able to obtain because of their very position as insiders, thereby allowing such insiders to then make money, then general investors will be reluctant to trade in such an unfair market. They would consequently flee the market with less and less people wanting to trade in the market until, eventually, the market itself would no

longer function.] **<Note: The part in brackets can be omitted.>**

Thus, this kind of dishonest insider trading is prohibited by law.

Slide 3

Then, what kind of stock trading should be considered as insider trading?

Let's check the components of insider trading.

First, who is subject to insider trading regulations?

People who have knowledge of information of a listed company are subject to the regulations.

They are defined as "corporate insiders" and "recipients of information".

Second, what types of information of a listed company are subject to regulations?

Information specified as "material facts" falls within the scope of regulations.

Third, when do the insider trading regulations apply and not apply?

Once the Material Facts of a listed company have been made public, insider trading regulations no longer apply.

Finally, what conduct is specifically prohibited?

Buy/sell, etc. Securities, etc.

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With these four components combined together, we get a simple definition of insider trading: the act in which a Corporate Insider or Recipient of Information, who has knowledge of Material Facts, buys/sells stocks before the information has been made public.

It may be difficult to accurately judge whether your stock trading constitutes insider trading only by the definition.

Although these key terms may be regarded as general terms, they have specific meanings.

As such, let me elaborate on the specific details.

Slide 4

Corporate Insiders and Recipients of Information are subject to insider trading regulations.

Corporate Insiders can be divided into two broad categories (1) and (2) + (3).

Let's start from category (1): officer et al. of a listed company.

People working at a listed company may have access to Material Facts before people outside the company.

Thus, everyone working at a listed company is subject to insider trading regulations regardless of the type of employment or contract.

Let's turn to the next category that encompasses (2): business partners, contracted consultancy firms, etc., and (3): when (2) is a legal entity, the other officer et al. at the same legal entity. Why are they subject to the regulations?

For example, when one has a business relationship with or has concluded a contract with a listed company, one could potentially obtain information that may have an impact on the stock price of the listed company via said contract.

Thus, business partners and contracted consultancy firms are also subject to regulations.

Working here, you may sometimes gain knowledge of information with regard to listed companies, our business partners. Please be aware that you will be considered a Corporate Insider of those listed companies.

As such, if you trade stocks of business partners, you will also be subject to insider trading regulations.

Do not forget that insider trading is not limited to trading stocks of the company where you are currently working.

Recipients of Information are also subject to regulations.

A Recipient of Information is a person who directly obtains a Material Fact from a Corporate Insider.

For example, your family members or friends would be categorized as Recipients of Information if they were to gain knowledge of Material Facts concerning this company or our business partners via you, a Corporate Insider.

Recipients of Information are also subject to regulations, because they are able to conduct unfair trading based on information obtained ahead of outsiders.

[A Recipient of Information is subject to insider trading regulations, which means that people who obtain knowledge of Material Facts from a Corporate Insider like you may become a Recipient of Information and eventually engage in insider trading.

Material Facts, in nature, are not supposed to be known by people outside of the company in accordance with **[the information management rules]** **<Modify the part in [brackets] in line with the situation at your company.>** or confidentiality obligations in the work rules.

The problem is if information related to Material Facts is leaked despite those rules. Properly dealing with Material Facts that you happen to gain knowledge of as a Corporate Insider will decrease the number of Recipients of Information and that of insider trading.

Please pay full attention to what you say to others, such that you will not be a catalyst for insider trading and do not involve yourself in insider trading. **<Note: The part in [brackets] can be omitted.>**

Slide 5

Corporate Insiders who have obtained knowledge of Material Facts are subject to insider trading regulations.

People who have obtained knowledge of Material Facts from Corporate Insiders are also subject to these regulations as Recipients of Information.

Thus, it is important to understand what Material Facts are in order to protect yourself from violating insider trading regulations.

Material Facts refer to information that can be expected to significantly influence the stock price.

Concretely speaking, they are the offering of shares, mergers, business alliances, damages arising out of disasters, administrative sanctions, and others.

You can easily understand that every fact here can significantly influence the stock price.

Furthermore, information on subsidiaries of a listed company, which can affect the company group, is also a type of Material Fact.

As such, please be aware that Material Facts are not only limited to information concerning the listed company itself.

To be clear, these are just some concrete examples of Material Facts.

There are thirty or so types of facts that are prescribed as Material facts.

So, it's quite difficult to remember every type.

For today's training, please understand that Material Facts refer to information that can be expected to have a significant impact on the stock price.

You may have obtained knowledge of some information that can significantly influence the stock price through work.

Or, perhaps you have already talked about it.

It is surprising how easily accessible Material Facts that may give rise to insider trading really are.

[If you are not sure whether information you obtain may have a significant influence on the stock price, please consult the department in charge before trading.] <Note: Modify the part in the brackets in line with the internal rules on stock trading at your organization.>

Slide 6

Once Material Facts have been made public, insider trading regulations no longer apply.

Methods of public disclosure are prescribed by laws and regulations.

A typical method is to disclose Material Facts via a company announcement on the official website of the stock exchange.

Simply releasing Material Facts of a listed company on the official website of the company is not deemed as public disclosure.

Publication of Material Facts through mass media is also not deemed as public disclosure. **<Note: The regulations prescribe that Material Facts shall be deemed as public information when 12 hours have elapsed since the Material Fact was released from the representative of a listed company, etc. to two or more major news media organizations (12-hour rule). Therefore, publication does not necessarily mean public disclosure, because it is unclear whether the publication has officially come from the representative of the relevant listed company.>**

Slide 7

To summarize this point, no Corporate Insiders or Recipients of Information, who have obtained knowledge of nonpublic Material Facts, shall trade securities until such Material Facts have "been made public".

In that case, do the regulations apply if the Corporate Insider him/herself does not actually conduct trading? Actually, there are cases where regulations would apply.

It can be illegal and subject to criminal penalties for a Corporate Insider to share Material Facts or recommend buying/selling, etc. of stocks if the following two conditions are met:

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

In other words, sharing information that may consequently give rise to insider trading or lead others to make profits in trading, just like any typical case of insider trading, is illegal.

If it is obvious that there was no unlawful purpose, it is not against the law. As such, sharing information during the course of your work in and of itself is not illegal. **<Note: If necessary, add the following description to make it clear that you don't have an unlawful purpose. "Send a reminder stating that there is insider information in the shared information, and record a reason for sharing information when you share Material Facts with another company or department at your organization.">**

Slide 8

Now, let's take a look at the punishment for insider trading.

Insider trading is a crime and you could be subject to criminal penalties or administrative monetary penalty payment.

I will explain these in turn.

First, we shall look at criminal penalties.

Insider trading is a crime and you could be subject to criminal penalties.

The penalties are fines of up to 5 million yen and/or imprisonment of up to 5 years.

Violations shall be punishable with fines, imprisonment, or both.

In previous cases, both forms of punishment have applied in the event of violations.

In addition to the above fines, the guilty party may face confiscation of assets acquired via insider trading.

The money to be confiscated shall be "assets", not mere "profit".

Let's check the meaning by looking at an example.

Let's say somebody uses 2 million yen to buy stocks based on insider information. After the stock price rises, this person sells the stock at a value of 3 million yen.

In this case, the profit from insider trading is 1 million yen. However, the amount that shall be confiscated will be the full 3 million yen.

That is, what shall be confiscated is not only the profit, but also the money used in this case of insider trading.

It means that if you use your all assets when conducting insider trading, you will lose everything.

Next, we shall look at administrative monetary penalties.

If a case has not been considered severe enough to impose criminal penalties, the administrative monetary penalty payment will be ordered.

The administrative monetary penalty payment order is one kind of administrative sanction in which the offender is ordered to pay to the state an amount of money calculated by the authorities as administrative monetary penalty.

The ordered amount of the payment will be calculated according to the formula on this slide.

The Financial Services Agency (FSA), as a state organ, will decide which punishment to

be imposed on a person who has committed insider trading, be it criminal penalties or administrative monetary penalty payment order.

The impact of insider trading does not end with criminal penalties or administrative monetary penalty payment order.

It is not unusual to see persons who commit insider trading receive disciplinary action in accordance with the work rules of their workplace.

There have been some cases of disciplinary dismissal in the past.

We have to seriously consider such disciplinary action when we discover that someone has committed insider trading at our own company.

Disciplinary dismissal is also an option.

The person's employer can also be affected.

It is often seen that the name of the company is also reported when an employee has been found guilty of insider trading. The company's reputation will be damaged if word spreads that the company's employees use insider information in their own self-interest, leading people to think that company may behave like its employees.

Not only that, corporate officers or superiors have to take responsibility, and business operations may be negatively impacted—such as business partners terminating contracts or the company's stock price dropping.

Insider trading can severely damage individuals and companies.

Please be very careful not to engage in insider trading.

Slide 9

Based on the components of insider trading that we have reviewed, what are the points that we have to pay attention to make sure we can avoid insider trading?

First of all, it is necessary to have a sufficient understanding of insider trading regulations.

Please check what you have learned today again before trading stocks.

The first point to check is whether you have knowledge of any Material Facts.

If so, check whether the Material Facts have been publicly disclosed.

Don't just check on your own whether you can trade the stock, but follow the internal rules without fail.

Following internal rules and checking with the company will prevent you from unintentionally becoming involved in insider trading.

<Note: Provide examples of internal rules as needed.>

Please consult with the department in charge if you have any questions.

<Note: Indicate the department in charge as needed.>

The second other objective for today is to make sure "you don't involve anyone else in insider trading".

How can this be accomplished?

Simply leaking Material Facts in and of itself falls outside the scope of insider trading regulations.

However, leaking information does result in the recipient becoming subject to said regulations. The leakage can also raise suspicion of illegal information sharing.

Thus, you must exercise caution and not carelessly divulge or leak information.

It cannot be stressed enough how important it is that you not divulge or leak information to your family or friends in order to prevent them from engaging in insider trading.

Always keep this in mind when you talk to your family at home or see friends.

If someone leaks Material Facts, it can result in insider trading.

There have been cases at other companies where disciplinary dismissal was imposed on employees who leaked Material Facts.

In the event we discover any similar cases here, we will be forced to seriously consider such disciplinary action on people who break internal rules by leaking Material Facts.

If corporate officers are found to have leaked insider information and consequently caused wrongdoings, the event may harm our reputation.

Please obey the internal rules from not only the perspective of stock trading but also that of information management.

<Note: Illustrate the internal rules as needed.>

Slide 11

Now, let's go over some points to prevent insider trading via concrete examples.

Please put yourself in the shoes of the characters in the following cases.

Slide 12

This is a case about stocks purchased via an employee shareholding association.

Mr. X had been purchasing his employer's stock through the shareholding association since he entered Company A 30 years ago.

The sum of the stocks he possessed reached a current value of 10 million yen.

One day, Mr. X heard from Ms. Y the following news.

Ms. Y was in charge of drawing up press releases in the IR department.

According to Ms. Y, Company A's business partner had gone bankrupt, causing Company A to register a large loss, and this fact would be publicly disclosed on the day following this conversation between Ms. Y and Mr. X.

It was clear that the stock price of Company A would decline after the disclosure.

So, Mr. X decided to sell all the stocks he had before the stock price dropped.

Slide 13

Mr. X sold all the stocks before the disclosure regarding the loss in earnings.
He felt relieved when he managed to avoid losing money from the decline in share price.

However, Mr. X's behavior constitutes insider trading.

<Comment: Mr. X will be regarded as a Corporate Insider if he gained knowledge of the incurred loss through his conversation with Ms. Y during the course of his duties.

Furthermore, Mr. X would also be regarded as a Recipient of Information even if he gained knowledge of the incurred loss through his conversation with from Ms. Y outside the course of his duties.>

As such, Mr. X, then, was issued an administrative monetary penalty payment order.

Moreover, Company A had no choice but to issue a public apology.

Subsequently, disciplinary actions were taken against both Mr. X and Ms. Y. Mr. X was demoted due to his involvement in insider trading, and Ms. Y took a salary cut for her leaking information to Mr. X regarding the incurred loss.

The event also affected Company A's business performance.

<Note: Read out the contents of the morning news report, press release from Company A, disciplinary actions, and outcome for business as needed.>

Slide 14

Let's first take a look at Mr. X's argument.

We'll be able to go over some common misconceptions regarding what constitutes insider trading.

The first part of Mr. X's argument is as follows:

"It's not like I sold those stocks to make a profit, I just wanted to avoid losses."

The fact is that both seeking to make a profit and trying to avoid loss can constitute insider trading.

It is quite obvious that it is unfair for someone who has knowledge of Material Facts to sell stocks before other shareholders have obtained such information.

As soon as a Corporate Insider or Recipient of Information trades stocks while having knowledge of Material Facts ahead of public disclosure, that constitutes insider trading.

The purpose for conducting trading is irrelevant when determining whether it constitutes insider trading.

The second part of Mr. X's argument is as follows:

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

Indeed, insider trading regulations do not apply in the event you are regularly purchasing the same amount of a stock around the same dates every month via the association..

However, this exemption only applies to purchasing.

This means that once you go ahead and sell the stocks obtained via a shareholding association, insider trading regulations will apply.

So, please do check whether or not you possess knowledge of Material Facts when you decide to sell stocks obtained via the shareholding association.

Slide 15

A conversation with family may also lead to insider trading.

Ms. W works for Company B.

She learned from a business partner, Company P, of a planned business alliance between Companies P and Q.

One day, Ms. W's parents called her.

Her parents asked how she was doing and she casually mentioned the potential business alliance between Companies P and Q.

Slide 16

After the call, Ms. W's parents decided to buy Company P's stock based on the conversation with their daughter.

They bought the stock for the purpose of receiving dividends, so they didn't sell the stock even after the price increased and still kept holding on to it.

Nevertheless, what Ms. W's parents did constitutes insider trading.

<Comment: Ms. W is a Corporate Insider, because she learned of a Material Fact from a business partner. Ms. W's parents are Recipients of Information, because they heard of a Material Fact from a Corporate Insider.>

Ms. W's parents were issued an order of administrative monetary penalty payment. However, this case does not only affect her parents but also Ms. W herself and Company B.

Company B had to issue a public apology to Companies P and Q because of the leakage of information pertaining to its business partners.

Ms. W eventually resigned from Company B after being imposed disciplinary punishment that involved demotion and a salary cut because of her misconduct in leaking information.

Moreover, corporate officers at Company B also surrendered a portion of their own executive compensation.

<Note: Read out the contents of the morning news report, press release from Company B, disciplinary actions, and outcome for business as needed.>

Slide 17

Now let's look at the arguments raised by Ms. W and her parents.

First, we have Ms. W's argument that reads:

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

The cause for why Ms. W's parents ended up becoming involved in insider trading lays in the fact that Ms. W made the mistake of divulging a Material Fact to her parents.

It is common for listed companies' internal rules to prohibit employees from leaking, to outside parties, any nonpublic information they obtain through work.

Ms. W violated the internal rules.

She has to bear the consequences of her actions.

[We know it is difficult not to talk about your work with your family. But, you should come up with ways to avoid involving family in insider trading, even if you do talk about your job with them.

For example, you could avoid giving specific names of projects, companies, or individuals.

You might also want to learn about insider trading regulations together with your family.

There are a number of ways in which you can talk about work matters while still obeying the rules.] <Note: The part in brackets can be omitted.>

Now, let's turn to Ms. 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."

Irrespective of whether or not the stock was sold or if profit was made through said sale, the act of trading stocks with knowledge of Material Facts that have yet to be disclosed still constitutes insider trading.

It is a mistake to assume that it is OK as long as you do not make any profit.

The purpose of trading is also irrelevant under insider trading regulations. For instance, even if the purpose was to receive dividends, the trading itself is not exempt from insider trading regulations.

Likewise, having no intention to make a profit or to avoid loss are also not valid excuses.

You must not misunderstand this crucial point: buying stocks while having knowledge of Material Facts constitutes insider trading.