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In the history of securities regulation, we observe repeated cycles of scandal and reform to prevent such scandals. The Japanese securities market is no exception. Though the effectiveness of regulation has been promoted through active enforcement of criminal, administrative, and civil procedures, there are remaining challenges such as the effectiveness of reform measures in immediate reaction to a scandal, possible negative impact of over regulation, and choice of regulatory system for promoting development of the capital market.

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The incidence of administrative disciplinary actions against securities dealers under the Japanese version of the Big Bang and Financial Instruments and Exchange Act, has increased. Furthermore, penalties have been heavier. In the background is a change in regulation, namely the transition from a licensing system to registration. Nevertheless, this change is the right choice for resolving issues facing the Japanese economy in its mature stage. The violation of laws and regulations is a barometer of whether securities industry regulation is working effectively. Partial revisions to regulations can be added if necessary.

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In order to maintain/enhance the eligibility of listed companies, Japan Exchange Regulation examines listed companies' compliance with the rules of delisting, timely disclosure, and Code of Corporate Conduct, and, when necessary, determines measures against a transgressor. This article outlines compliance rules and presents two sets of principles ("Principles for Equity Financing" published in October 2014 and "Principles for Listed Companies under Corporate Scandal" published in February 2016) which are expected to be upheld by the parties concerned.

<b>On the Integrity of US Securities Markets</b> .....	<i>Takao Saga</i>	36
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US securities regulation has been effected by government agencies and self-regulatory organizations. In addition, various trade associations have set standards of best practice and professional ethics codes. These practices have contributed to achieving

and maintaining the integrity of securities markets. But, since the financial deregulation of the 1980s, market discipline has become increasingly lax. Although a huge volume of new regulation came into being in the wake of the financial crises of 2007-08, especially via the Dodd-Frank Act, it is necessary to continuously review regulations and ensure that professional ethics permeate.

## **The 31<sup>th</sup> SAAJ Annual Conference : *AI-IOT Revolution:Challenges for Corporations and Analysts***

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We investigate the determinants of financial friction in external financing using qualitative data collected from a survey of CFOs of Japanese companies. We find that firm size plays an important role in explaining the extent of financing friction in external financing and especially so for bond issuances. Our results also suggest that firms hold cash for precautionary purposes which in turn mitigates financing constraints in financing projects. Furthermore, we find that bank dependent firms in general face severe financing friction. We also document that ownership by institutional investors and independent boards mitigate financing friction in external financing.

**Clustering of Annual Earnings Announcements and Price Formation in Response to Earnings News**  
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The purpose of this paper is to clarify whether clustering of annual earnings announcements affects price formation in response to earnings news. The results are as follows. The clustering of annual earnings announcements is negatively associated with initial stock price reaction to actual earnings news, and positively associated with stock price drift to actual earnings news in the first 10 days of the post-earnings announcement period. These findings imply that the clustering of annual earnings announcements lowers market efficiency regarding actual earnings news.

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