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Title	*LEAD: Bill calls on FSA to seize all profits from illicit deals.*

A draft government-sponsored bill to be submitted to the Diet calls for empowering the Financial Services Agency (FSA) to seize all profits that market players earn through illicit stock trading, beginning fiscal 2005, FSA sources said Wednesday.

The FSA wants to slap stiffer penalties on those who conduct illegal stock transactions as part of efforts to improve investor confidence in the securities market, they said.

Illegal practices include conducting insider trading and spreading false rumors to try to manipulate stock prices.

So far, the FSA has imposed limited penalties, such as suspending operations and imposing a limited amount of fines, on market players who engage in such illegal practices.

The bill to amend the Securities and Exchange Law would also call for allowing banks and other financial institutions to start selling stocks at their outlets in fiscal 2004 once they are licensed by the government, the sources said.

The plan to lift a ban on securities brokering by banks is intended to spur Japan's securities market by boosting the participation of individual investors.

The FSA plans to submit the bill to the ongoing regular Diet session after receiving approval from the cabinet in early March, the sources said.

The FSA wants to win a go-ahead from the ruling coalition, which consists of the Liberal Democratic Party and the New Komeito party, as early as next week, they said.

The FSA hopes the cabinet will also approve in early March another bill to foster paperless stock transactions in fiscal 2009 in a move to require listed companies to stop issuing stock certificates.

The paperless system would allow such companies to cut their stock certificate-related expenses and speed up settlement procedures.

According to the bill regarding punishing those who engage in illicit stock trading, stiffer penalties will be given to players who conduct illegal trading and those who fail to disclose information as appropriate in the event of fresh public offering of their shares.

Players conducting illicit deals will be fined the amount equivalent to what they have earned through the transactions. Those failing to follow information disclosure rules will be charged part of the profit they generate.

The Securities and Exchange Surveillance Commission will be in charge of identifying such stock-related violations before recommending that the FSA imposes penalties.

FSA inspectors will then question suspicious players and issue the final ruling on them.

As for the plan to allow banks to sell stocks at their outlets, the Cabinet Office is considering issuing an ordinance that would prohibit banks from luring customers to buy shares from them in exchange for receiving loans.

The envisaged revision to the Securities and Exchange Law would involve Article 65, which prohibits banks from conducting securities business and brokerages from banking.

Foreign business lobbies have demanded Japan scrap the article to allow full liberalization of its financial markets. The European Business Community in Japan said in November that such regulations impose "artificial barriers between banks and securities firms."

Moreover, the bill calls for granting the Securities and Exchange Surveillance Commission the sole power to inspect securities houses.

Currently, several institutions such as the commission, the FSA, the Tokyo Stock Exchange and other Japanese bourses are involved in brokerage inspections, complicating the process.