

November 30, 2023

## TSE Imposes Disciplinary Actions against MIKI SECURITIES CO., LTD.

Tokyo Stock Exchange, Inc. (TSE) has taken disciplinary action against MIKI SECURITIES CO., LTD. (hereinafter "the Company"), as indicated below, pursuant to the provisions of Rule 34, Paragraph 1, Item (8) of the Trading Participant Regulations and has requested the Company to submit a business improvement report pursuant to the provisions of Rule 19, Paragraph 1, Item (1) of the same Regulations. These measures were determined based on the results of the deliberations by Japan Exchange Regulation.

### 1. Disciplinary Action

- Censure

### 2. Reason

The Company had posted operating losses for four consecutive years from the fiscal year ended March 2017 to the fiscal year ended March 2020, in part due to a decline in the number of accounts because of an aging customer base. Against this backdrop, given the strong U.S. market conditions, the Company had been focusing mainly on sales of U.S. stocks since April 2020 under the leadership of the management team.

In such circumstances, the following situations were recognized:

#### (1) Solicitations in violation of the suitability principle

The Company was aware that at least 18 of its customers did not have the cognitive decision-making abilities necessary to trade foreign stocks, as they could not engage fully in conversation or remember conversations from several minutes ago. However, it concluded financial instruments transaction contracts without explaining the risks of foreign stocks in a manner and to the extent necessary for ensuring that the customers understand them relevant to their attributes. The Company was deemed to have continuously engaged in such solicitations to trade foreign stocks for a long time.

In addition, when soliciting customers for investment trusts to invest in technology-related companies in emerging countries, the Company was deemed to have concluded a financial instruments transaction contract with at least one customer without providing information on the product or explaining the risks of foreign stocks in a manner and to the extent necessary for ensuring that the customer understood them relevant to the customer's attributes.

## (2) Inadequate system to comply with the suitability principle

### a) Inappropriate sales promotion system

In June 2019, the Company revised its evaluation system for sales representatives and introduced a mechanism to give a higher rating to sales representatives who have contributed to the Company's revenue growth by directly reflecting and emphasizing commission revenue performance in their evaluations. Furthermore, in January 2022, it changed its compensation system to one in which sales representatives with higher commission revenues receive higher performance ratings, such as by removing compliance items from the evaluations, for instance, those giving lower performance ratings to sales representatives who have violated laws and regulations or conducted sales activities that are not customer oriented. This change encouraged inappropriate investment solicitations that were disproportionately focused on commission revenues. In addition, while the Company was focused mainly on sales of U.S. stocks under the lead of the management, excessive pressure mainly by the executive director of sales and other management members to achieve higher revenues was exerted on branch managers, such as by instructing them to give priority to sales without regard to customer suitability. As a result of this, the Company had developed an extreme sales-first corporate culture that disregarded customer suitability, and its sales promotion system was inappropriate.

### b) Inappropriate compliance with laws and regulations

The Company's corporate culture prioritizes sales and marketing to an extreme degree. For instance, when an employee raised objections to the sales department, the Company at the initiative of the sales headquarters demoted the person without complying with the work rules. As such, employees found it difficult to address compliance issues within the Company.

In addition, the compliance department was not even adequately staffed. In order to end its chronic deficits and turn a profit continuously, the Company had reduced the number of staff in the compliance department under the direction of the representative director and president, and an inspection by a self-regulatory organization in 2018 indicated the shortage of staff in said department. However, the Company reduced the number to less than half of what it was in 2018.

As a result, the approval procedure at the Company was a mere formality, as managers only had brief conversations with elderly customers to greet them and rarely checked their health or understanding of the products, which are required by the guidelines for elderly customers set by the self-regulatory organization. In addition, monitoring by the person in charge of internal management was limited to a formal confirmation, as the Company prioritized sales. The monitoring of branch offices by internal audit was also inadequate. For instance, it did not provide detailed information about issues identified such as transaction methods and names of sales representatives and their managers but gave formal guidance suggesting that meetings

should be appropriately held when such issues are identified in the future.

The person responsible for overall internal management said that he had doubts about the effectiveness of monitoring and internal audits but continued to conduct monitoring and internal audits, thinking that it was better to do them than do nothing. As such, monitoring and internal audits were conducted as a mere formality without effective verification, and its systems to properly comply with laws and regulations were inappropriate.

c) Inappropriate business management system

Financial instruments business operators are required to develop systems to comply with laws and regulations and to manage their businesses in a manner to protect investors. However, the management team at the Company, including the representative director and president, put off establishing and developing systems to comply with laws and regulations and internal management in the course of their extreme sales promotion activities. The Company's business management system was inadequate, as, for instance, the management overlooked its weak internal management system where no one could raise objections to the sales department and correctly report facts to the management.

The acts aforementioned in (1) are deemed to fall under case described in Article 117, Paragraph 1, Item 1 of the Cabinet Office Ordinance on Financial Instruments Business, etc. pursuant to the provisions of Article 38, Item 9 of the Financial Instruments and Exchange Act (hereinafter referred to as "FIEA") which states "an act to conclude a Contract for Financial Instruments Transaction, without having provided a customer with an explanation in a manner and to the extent necessary for ensuring that the customer understands, in light of the customer's knowledge, experience, the status of the customer's properties and in light of the purpose of concluding the Contract for Financial Instruments Transaction."

The situations aforementioned in (1) and (2) are deemed to indicate that the Company was continuously conducting business operations that violated the suitability principle, and the Company's solicitation of purchases falls under Article 40, Item 1, of FIEA which states that "issuance of a solicitation which is found to be inappropriate in light of customer knowledge, customer experience, the state of customer assets, or the purpose for which a financial instruments transaction contract is concluded, results in or is likely to result in insufficient investor protection."

Contact:

Trading Participants Office, Tokyo Stock Exchange, Inc.

Tel: +81-(0)50-3377-8024

DISCLAIMER : This translation may be used for reference purpose only. This English version is not an official translation of the original Japanese document. In cases where any differences occur between the English version and the original Japanese version, the Japanese version shall prevail. This translation is subject to change without notice. Tokyo Stock Exchange, Inc., Osaka Exchange, Inc., Japan Exchange Group, Inc., and/or Japan Exchange Regulation shall individually or jointly accept no responsibility or liability for damage or loss caused by any error, inaccuracy, misunderstanding, or changes with regard to this translation.