

September 20, 2018

TSE Impose Disciplinary Action against Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.

Tokyo Stock Exchange, Inc. (hereinafter "TSE") has taken disciplinary action against the Company, as indicated below, pursuant to the provisions of Rule 34, Paragraph 1 of its Trading Participant Regulations, and has requested the Company to submit a business improvement report pursuant to the provisions of Rule 19, Paragraph 1 of the same Regulations.

[Disciplinary Actions]

- Censure

* The above measures were determined based on the result of deliberations by Japan Exchange Regulation.

[Details]

➤ Background

In the course of market surveillance in the OSE market, Japan Exchange Regulation (hereafter "JPX-R") found activity suspected of market manipulation (spoofing) with respect to proprietary trading of Japanese government bond futures (hereafter "proprietary trading") by the Company, an OSE Trading Participant, and explained the details of the situation to the Company in November 2017. Thereafter, JPX-R analyzed such proprietary trading in detail and reported the result of the investigation to the Securities and Exchange Surveillance Commission (hereafter "SESC").

Based on the report from JPX-R, the SESC investigated the case in detail, and then judged that such proprietary trading falls under market manipulation that is prohibited by the Financial Instruments and Exchange Act. On June 29, 2018, the SESC recommended the Financial Services Agency (hereafter "FSA") to issue an Administrative Monetary Penalty Payment Order against the Company.

On July 31, 2017, after conducting the hearing procedure, the FSA ordered the Company to pay an administrative monetary penalty of JPY 218.37 million.

(Reference Translation)

➤ Summary of Violation

In the course of making successful bids for Japanese government bonds (hereinafter "JGB") in the primary market and then selling them on to its customers, the Company trades JGB futures on its proprietary account mainly for the purpose of hedging the risk of changes in the prices of its holdings of JGBs. The rates trading section in the department handling for trading in financial markets is in charge of such transactions.

With this arrangement at the Company, on August 25, 2017, with respect to September 2017 contracts of 10-year JGB futures traded at OSE (hereafter "the contract"), a government bond dealer in the section devised a way to adjust positions at advantageous prices. With the aim of inducing orders from other investors, the dealer conducted trades and placed orders on the Company's proprietary account in order to mislead other investors into believing that trading of the contract was thriving, which would artificially move the price of the contract favorably.

Specifically, on August 25, 2017, the dealer repeatedly conducted the following acts between 6:34 p.m. and 7:09 p.m. during the night session, when liquidity is relatively lower than in the day sessions.

(1) Selling at higher prices resulting from spoof buy orders

- The dealer placed large buy orders at prices ranging from the best bid price to approximately five ticks lower with no intention of executing them (spoof buy orders for a total of 6,253 contracts).
- The spoof buy orders led other investors to place buy orders at higher prices, and the dealer placed proprietary sell orders to match them. These sell orders were executed (total 177 contracts).
- The dealer cancelled the spoof buy orders a few seconds later.

(2) Buying at lower prices resulting from spoof sell orders

- The dealer placed large sell orders at prices ranging from the best offer price to approximately three ticks higher with no intention of executing them (spoof sell orders for a total of 1,844 contracts).
- The spoof sell orders led other investors to place sell orders at lower prices, and the dealer placed proprietary buy orders to match them. These buy orders were executed (total 158 contracts).
- The dealer cancelled the spoof sell orders a few seconds later.

The above acts are deemed to fall under the act prohibited by Article 159, Paragraph 2, Item 1 of the Financial Instruments and Exchange Act (market manipulation).

(Reference Translation)

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