

August 28, 2019

TSE Imposes Disciplinary Action against Nomura Securities Co.,Ltd.

Tokyo Stock Exchange, Inc. (hereinafter "TSE") has taken disciplinary action (imposition of a JPY 10 million fine) against Nomura Securities Co.,Ltd. (hereinafter the "Company") pursuant to the provisions of Rule 34, Paragraph 1 of the Trading Participant Regulations and has requested that the Company submit a business improvement report pursuant to the provisions of Rule 19, Paragraph 1 of the same Regulations.

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

[Background]

The Financial Services Agency (hereinafter "FSA") imposed administrative disciplinary action against the Company on May 28, 2019 in that the business management system for information management was deemed to be inadequate and improvement in the business operations based on the past administrative actions was deemed to be insufficient after verifying reports submitted by Nomura Holdings, Inc. (hereinafter "NHI") upon request pursuant to the provisions of Article 57-23 of the Financial Instruments and Exchange Act as well as investigation results conducted by a special investigation team composed of outside professionals established under the Audit Committee of NHI.

[Summary of Violation]

(1) Inadequate business management system for information management

On March 5, 2019, a chief strategist in the Market Strategy Research Department of the Company obtained presumed information about the TSE market structure review (hereinafter the "information concerning the status of TSE market structure review") from a research fellow of Nomura Research Institute, Ltd., a group company of the Company who is a member of TSE's "Advisory Group to Review the TSE Cash Equity Market Structure". The information concerning the status of TSE market structure review includes a review of listing and exit criteria for the premium market segment that would likely be stipulated at JPY 25 billion or more of market capitalization. On the same day, the strategist transmitted the information concerning the status of TSE market structure review by e-mail to at least six sales persons of the Company and an NHI overseas subsidiary, Nomura International (Hong Kong), Limited.

(Reference Translation)

(hereinafter "NIHK"), as well as to one external fund manager. On the following day, the strategist transmitted similar information via a distribution list to multiple institutional investors and sales persons in Japan and overseas. Of the sales persons who received said e-mail, three sales persons, including one NIHK sales person, provided the information concerning the status of TSE market structure review and solicited a total of at least 33 external institutional investors for trading.

Although the activities conducted by said strategist and sales persons (hereinafter the "Activity") did not violate laws and regulations, the Activity was intended to solicit specific investors with offers of the information concerning the status of TSE market structure review. Therefore, the Activity could significantly undermine the credibility of the capital market in terms of the market's integrity and fairness.

The Activity was a result of mainly the following:

- (a) There were no rules to regulate the Activity;
- (b) employees involved in the Activity had little awareness of compliance required as employees of securities companies such as by not knowing the nature of compliance and prioritizing improvement of their own reputations by showing that they had valuable sources of information as well as lacking awareness of important roles that securities companies have to play in terms of securing integrity and fairness of the market; and
- (c) the Company did not properly develop an examination and supervision framework that was supposed to prevent inappropriate information offering to external institutional investors.

In view of not having identified such actual business operations, the senior executives of the Company did not take effective management and supervision measures for information management. As such, their business management system was inadequate.

(2) Insufficient improvement in business operations despite past administrative actions

The Company had committed a legal violation based on the fact that the Company provided institutional investors insider information concerning public offerings of new shares of TSE listed companies¹ and received business improvement orders from the FSA in 2012 (hereinafter

¹ Meaning business operations that failed to take necessary and appropriate measures to prevent unfair trading concerning the management of confidential corporate information related to public offerings of new shares and acts of employees who solicited customers for trading including securities trading by providing confidential corporate information under such circumstances.

(Reference Translation)

the “public offering insider trading case”).

The Activity refers to sales activities that involved the use of information that market participants in general had yet to obtain. Thus, there are similarities to the public offering insider trading case in 2012 in that both cases were caused by a lack of understanding about the nature of compliance. In the wake of said public offering insider trading case, the Company had been reviewing the internal management systems including information management and working to strengthen and ensure employees' professional ethics. However, TSE has deemed that the Company did not implement effective measures to raise all employees' awareness of compliance, and improvement in the business operations was insufficient as evidenced by the following situations:

- (a) Employees who were aware of the Activity did not voice their doubts nor seek improvement, which resulted in overlooking the Activity; and,
- (b) according to the results of an employee survey held by NHI, there were some opinions, although limited, where respondents felt that compliance referred only to legal compliance and saw the Activity as acceptable.

As stated above, TSE deems that the Activity resulting from inadequate business management and internal control systems of the Company are acts based on a lack of awareness for investor protection or acts that damage fair transactions. Furthermore, in consideration of stable operation of the TSE market, the Activity has contributed to loss of credibility toward TSE and breached good faith toward TSE and trading participants of TSE.

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