

October 1, 2024

OSE Imposes Disciplinary Action Against Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.

Osaka Exchange, Inc. (OSE) has taken disciplinary action against Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. (hereinafter "the Company") pursuant to the provisions of Rule 42, Paragraph 1, Item (10) of the Trading Participant Regulations, as indicated below, and has requested the Company to submit a business improvement report pursuant to the provisions of Rule 17, Paragraph 1, Item (1) of the same Regulations. The above measures were determined based on the results of the deliberations by Japan Exchange Regulation.

1. Disciplinary Action

- Censure

2. Reason

(1) Inappropriate sharing, usage, and management of information

a) Inappropriate sharing and usage of customer information with a bank

Article 153, Paragraph 1, Item (vii) of the Cabinet Office Order on Financial Instruments Business, etc. (hereinafter the "FIB Cabinet Order") pursuant to the provisions of Article 44-3, Paragraph 1, Item (iv) of the Financial Instruments and Exchange Act (hereinafter the "FIEA") states that a Financial Instruments Business Operator engaged in a Securities-Related Business (limited to an operator engaged in a Type I Financial Instruments Business) must not receive from, or provide to, its Parent Juridical Person, etc. (i.e., a parent that holds a majority of voting rights or another closely related corporation) or Subsidiary Juridical Person, etc. any Non-Disclosure Information on Issuers, etc. except when the Issuer, etc. has given a prior written consent on the provision of such Non-Disclosure information by the Financial Instruments Business Operator or its Parent Juridical Person, etc. or Subsidiary Judicial Person, etc.

Regardless of this, while an executive and employees of the Company were aware that sharing information with MUFG Bank, Ltd. (MUBK) and Morgan Stanley MUFG Securities Co., Ltd. (MSMS), which are parent/other closely related corporations, was prohibited or not consented to by corporate customers, they provided and received non-public information about said corporate customers at least 13 times and shared it within the Company. In addition, a then Deputy President of the Company was deemed to have received a part of such

information personally and used it to solicit underwriting contracts.

b) Inadequacies in management of corporate information

Article 123, Paragraph 1, Item (v) of the FIB Cabinet Order pursuant to the provisions of Article 40, Item (ii) of the FIEA states that a financial instruments business operator must implement measures necessary and appropriate for the prevention of unfair transactions based on corporate information.

However, as stated in a), an executive and employees of the Company carried out inappropriate information sharing between themselves, MUBK and MSMS at least 13 times.

In addition, at least 16 cases of inappropriate management of corporate information were found, such as failing to conduct appropriate management based on the Company's internal rules and regulations.

The Company's acts described in a) are deemed to fall under those prescribed in Article 153, Paragraph 1, Items (vii) and (viii) of the FIB Cabinet Order pursuant to the provisions of Article 44-3, Paragraph 1, Item (iv) of the FIEA.

The Company's circumstances described in b) are deemed to fall under the circumstances prescribed in Article 123, Paragraph 1, Item (v) of the FIB Cabinet Order pursuant to the provisions of Article 40, Item (ii) of the FIEA.

The acts and circumstances described in a) and b) are deemed to have been caused by inadequate awareness of compliance with laws and regulations by the Company in promoting collaborative business with banks, as demonstrated by facts such as that the executive and employees of the Company prioritized the interests of the Company, MUBK, and MSMS, namely winning contracts, while they were aware that information sharing between banks and securities companies is prohibited, and that the Deputy President of the Company was deemed to have personally received non-public information. Therefore, it is deemed that there are inadequacies in the Company's systems for compliance with laws and regulations.

(2) Inappropriate conclusion of financial instruments transaction contracts

a) Inappropriate conclusion of financial instruments transaction contracts on the back of overlooking and encouraging prohibited securities-related business by a registered financial institution

It had been pointed out to the Company in a previous inspection that the Company could be causing MUBK to conduct prohibited securities-related business operations, as demonstrated

by the fact that there were records in the daily sales reports that could be taken as the Company asking MUBK to negotiate underwriting contracts and MUBK negotiating the Company's share of the deal. At that time, the Company did no more than carry out confirmation of the facts, mainly by interviewing its own employees responsible for the operations and without verifying e-mails or other correspondence or checking with MUBK, concluding that the records were simply misleading. On the basis of this conclusion, the Company issued an internal warning not to write inappropriate statements in the daily sales report, meaning that the fact that MUBK was negotiating underwriting contracts came to not be recorded in said reports. Under these circumstances, the following facts were confirmed.

- i. At least four times, an executive and employees of the Company did not report to or consult with the Company's compliance department about the fact that MUBK was carrying out negotiations regarding underwriting of securities that could be in violation of laws and regulations, despite being aware of the situation, for example having received reports from MUBK. They also failed to caution or warn MUBK's employees to stop such acts, concluding financial instruments contracts on the back of overlooking or encouraging the situation.
- ii. At least three times, employees of the Company made inappropriate communications to employees of MUBK such as by requesting them to negotiate underwriting contracts.
- iii. The employees of the Company concluded underwriting contracts with customers knowing that MUBK was conducting underwriting business that was not permitted, that MUBK was asking a customer to increase the Company's share of underwriting contracts as a minimum requirement for a financing contract with set conditions, and that MUBK was carrying out financing with set conditions.

b) Inadequate internal management system to prevent inappropriate collaborative business with banks

The previous inspection had pointed out to the Company that it could be causing MUBK to conduct prohibited securities-related business operations, and that the Company was failing to sufficiently monitor such situations. To improve the situation, the Company provided training on the theme of preventing inappropriate collaborative business with banks and enhanced monitoring.

However, the Company overlooked MUBK's violations of laws and regulations as demonstrated by the fact that due to insufficient monitoring by its compliance department, the Company was completely unaware of the numerous violations by MUBK, and that despite detecting at least one suspected violation by MUBK through monitoring, it failed to take

appropriate measures, such as taking necessary countermeasures in cooperation with the department in charge of compliance for the entire group.

These responses by the Company show that the Company's internal control system to prevent inappropriate collaborative business with banks can be deemed to have been inadequate.

The above circumstances at the Company are deemed to fall under "necessary and appropriate in the public interest or for the protection of investors" as prescribed in Article 51 of the FIEA.

Also, the acts described in a), iii. are deemed to be prohibited as prescribed in Article 44-3, Paragraph 1, Item (ii) of the FIEA.

The above circumstances are deemed to have been caused by inadequate understanding from the management of the Company about the risks of MUBK's own involvement in underwriting negotiations and other activities prohibited by laws and regulations in order to secure revenue for Mitsubishi UFJ Financial Group, Inc. as the group was advocating sales collaboration among group companies and the resulting increase in group revenue.

The acts described in (1) and (2) are deemed to be caused by inadequate governance by the management, which is responsible for establishing and operating an appropriate internal control system for collaboration within the group, as demonstrated by such facts as that it did not have the awareness required in light of said responsibilities and did not establish an internal control system necessary to prevent the aforementioned inappropriate acts. The Company's business management system is therefore deemed to be inadequate to ensure appropriate business operations.

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