

October 1, 2024

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

Osaka Exchange, Inc. (OSE) has taken disciplinary action against Morgan Stanley MUFG 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

- 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 FIB Cabinet Order pursuant to the provisions of Article 44-3, Paragraph 1, Item (iv) of 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 employees of the Company were aware that sharing information with Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. (MUMSS), which is a parent/other closely related corporation, was prohibited or not consented to by corporate customers, they received non-public information about said corporate customers at least three times and shared it within the Company. In addition, they were deemed to have used such information 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), employees of the Company carried out inappropriate information sharing with MUMSS at least three times.

In addition, at least 30 cases of inappropriate management of corporate information were found, including cases of inappropriate handling, such as not carrying out registration procedures until the Company had obtained informal consent to the nomination of an underwriter when it should have carried out registration procedures as soon as it became aware of corporate information. Of the 30 cases of inappropriate management, registration was found to have been delayed for over a month in 11 cases (the maximum delay was over nine months).

The compliance department was deemed to have deficiencies in its system for monitoring corporate information, as it failed to detect any delays or omissions in registration until this inspection pointed them out, even though it could have gained awareness of the possibility when checking the circumstances surrounding the acquisition of information at the time of registration of information by employees.

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 and other activities, as demonstrated by facts such as that the employees of the Company prioritized the interests of the Company, MUBK, and MUMSS, namely winning contracts, while they were aware that receiving customers' non-public information from parent/other closely related corporations is prohibited. Therefore, it is deemed that there are inadequacies in the Company's systems for compliance with laws and regulations.

Furthermore, these are the result of the management's failure to adequately develop internal management systems for handling non-public information about customers and corporate information, such as monitoring systems that are necessary and effective for observing laws and regulations in Japan, and training systems for raising awareness of compliance with laws and regulations. The Company's business management system is therefore deemed to be inadequate to ensure appropriate business operations.

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