

June 20, 2025

OSE Imposes Disciplinary Action Against Tachibana Securities Co., Ltd.

Osaka Exchange, Inc. (OSE) has taken disciplinary action against Tachibana Securities Co., Ltd. (hereinafter "the Company") pursuant to the provisions of Rule 42, Paragraph 1, Item (11) 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

The Company proclaims itself to be a "company specializing in stocks" for a wide range of investors and engages in sales at a total of 11 branch offices, primarily through face-to-face sales of domestic stocks by sales representatives.

Upon reviewing the solicitation of domestic stocks to elderly customers (75 years of age and older) from April 2022 to August 2024 (hereinafter the "review period") in an inspection of the Company by the Kanto Local Finance Bureau, the following issues were recognized (hereinafter the practices in (1) and (2) below shall collectively be referred to as "improper investment solicitation").

(1) Practices of conveying false statements to customers regarding domestic stock transactions and providing misleading information regarding important matters

Sales representatives of the Company repeatedly conveyed false statements regarding profit/loss on stocks sold (hereinafter "false statements") and provided misleading information regarding important matters (hereinafter "misleading information") to 31 customers with the aim of acquiring fees from the sale of owned stocks and transactions to transfer to other stocks (total of 58 cases: 24 sales representatives at 10 branch offices).

(2) Inappropriate investment solicitation practices pertaining to domestic stock transactions

The Company failed to make adequate improvements despite receiving guidance regarding

cases of inappropriate investment solicitation practices for domestic stock transactions similar to a) to c) below in an inspection carried out by a self-regulatory organization in 2023, and continued to repeatedly make similar inappropriate investment solicitations to 34 customers, prioritizing the acquisition of fees.

- a) Cases in which sell orders were accepted after only one-sided explanations from sales representatives that did not provide accurate explanations regarding losses, which are important for customers' investment decisions (79 cases: 15 sales representatives at 8 branch offices)
- b) Cases of solicitation to transfer investments to cut losses by emphasizing tax savings based on full-year profit/loss, during a period in which full-year profit/loss are not predictable (primarily January to October) (31 cases: 14 sales representatives at 8 branch offices)
- c) Cases in which sales representatives conducted one-sided sales pitches for transactions in a short period of time and repeatedly made buy/sell orders with only passive consent from customers (11 cases: 10 sales representatives at 6 branch offices)

(3) Excessive fees imposed due to excessive transactions

As stated in (1) and (2) above, improper investment solicitation to elderly customers has been recognized, so the average figures for the annual transaction turnover ratio and the number of executions for customers who received these improper investment solicitations were extremely high. Furthermore, the average fee ratio for customers who received these improper investment solicitations was also extremely high, and there were many customers whose cumulative fees during the review period exceeded their profit/loss, including valuation gains and losses. The Company's sales representatives prioritizing the acquisition of fees over customers' profits and repeatedly engaging in improper investment solicitation practices led to excessive transactions for customers, which resulted in the imposition of excessive fees for these customers.

(4) Insufficient internal control and business management systems

At the Company, an effective internal control system had not been established due to deficiencies in the following areas. The sales department's branch manager and person responsible for internal control, who are the first line of defense, did not monitor transactions or confirm telephone recordings, so there were no checks in place to prevent sales representatives from engaging in improper investment solicitation practices. The internal control department, the second line of defense, did not properly instruct the sales department despite having information about similar cases in the past and cases pointed out by the inspection conducted by the self-regulatory organization, so checks were insufficient, and transaction

monitoring was inadequate and ineffective. The internal audit department, the third line of defense, had not carried out effective internal audits due to reasons that include a lack of personnel.

In addition, the Company's management team left the improvement measures for the issues pointed out in the inspection conducted by the self-regulatory organization in 2023 to the internal control department without discussing such measures within the management team. Furthermore, even after the inspection by the self-regulatory organization, the Company did not take seriously the reports from the internal control department regarding sales representatives engaging in solicitation practices similar to those pointed out in the inspection and failed to give appropriate instructions for investigation or formulate improvement measures, further entrusting such matters entirely to the internal control department. As a result, the Company's business management system has been deemed to be inadequate.

Against the backdrop of (1) to (4) above, the following circumstances have been recognized for the Company:

- Most of the performance evaluation criteria and calculation methods for bonuses for sales representatives were based on actual fees acquired, resulting in an incentive system heavily biased toward actual fees acquired.
- With the continuation of an incentive system heavily biased toward actual fees acquired, the management team fostered a corporate culture that prioritized sales for many years without establishing an effective system for compliance with laws and regulations, including management by the first to third lines of defense.

Of the aforementioned practices carried out by the Company in (1), false statements have been deemed to fall under Article 38, Item (1) of the Financial Instruments and Exchange Act (FIEA), which prohibits "providing a customer with false information in connection with the conclusion of a financial instruments transaction contract or in connection with the solicitation thereof," and misleading information has been deemed to fall under Article 117, Paragraph 1, Item (2) of the Cabinet Office Order on Financial Instruments Business, etc. pursuant to the provisions of Article 38, Item (9) of the FIEA, which prohibits "an act to make a false representation or a representation that will likely give a false impression on important matters regarding entering into a financial instruments transaction contract or solicitation therefor."

In the situations aforementioned in (1) to (4), elderly customers were being pressured into excessive transactions due to sales representatives prioritizing the acquisition of fees over customers' profits and repeatedly engaging in improper investment solicitation practices as the Company's internal control and business management systems were insufficient. These

situations were not improved after they were pointed out in the inspection by the self-regulatory organization. The Company's business operations have been deemed to fall under Article 51 of the FIEA, which states that the Prime Minister may take measures "if the Prime Minister finds it to be necessary and appropriate in the public interest or for the protection of investors as concerns business operations."

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