

April 13, 2012
SMBC Nikko Securities Inc.

**Recommendation for Administrative Action by the Securities
and Exchange Surveillance Commission**

Today, the Securities and Exchange Surveillance Commission (“SESC”) issued a recommendation to the Prime Minister and the Commissioner of the Financial Services Agency (“FSA”) to take administrative action against SMBC Nikko Securities Inc. (“SMBC Nikko”), based on findings resulting from recent inspections by the SESC.

We express our deep regret and hereby apologize to our customers and all related parties for the concerns and inconveniences we have caused in connection with this incident.

We take the contents of the recommendation very seriously, and will strive to enhance our internal information controls, continue taking preventive measures against recurrences, and will further strengthen sufficient internal control systems.

The background of the recommendation and our remedial action are as follows:

1. Background leading to the Recommendation

(1) Contents of the Recommendation

Pursuant to Article 20, paragraph 1 of the Act for Establishment of the Financial Services Agency, today, on April 13, 2012, SESC issued a recommendation that the Prime Minister and the Commissioner of the FSA take administrative action against SMBC Nikko. This recommendation is based on the findings of an inspection, whereby the following breaches of laws and regulations by SMBC Nikko were identified.

(2) Summary of the Findings

Business practices related to control of undisclosed corporate information (hereafter, “Corporate Information”) which insufficiently address the necessary and adequate measures to prevent fraudulent trading; and inappropriate solicitation, including regulation violations.

Sales Division Directors within SMBC Nikko, who obtained Corporate Information related to the Public Offering of Company A (hereafter, “Related Information”), transmitted such Related Information to subordinate branch general managers without following internal procedures and failed to issue clear instructions on strict Related Information control. In at least 21 branch

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offices, Company A Public Offering solicitations were executed before public announcement, as directed by sales branch managers; 23 sales employees from eight branch offices provided this Related Information to 34 clients, resulting in solicitation activity before public announcement of the Related Information.

Thereafter, SMBC Nikko recognized these activities as inappropriate, then initiated awareness programs related to Corporate Information control, executed multiple corporate training sessions, and other measures directed at management and employees. While a certain level of improvement is recognized, these efforts were insufficient.

Furthermore, a department of SMBC Nikko that was in possession of Corporate Information related to the Public Offering of Company B, transmitted such Corporate Information to the general managers in charge of sales without following internal procedures.

Among the aforementioned actions, solicitation while providing Corporate Information is acknowledged to fall under Article 38 (vii) of the Financial Instruments and Exchange Act (hereafter, "FIEA") and Article 117, paragraph 1 (xiv) of the Cabinet Office Ordinance on Financial Instruments Business, etc.

Additionally, the aforementioned control system of Corporate Information, which insufficiently addresses the necessary and adequate measures to prevent fraudulent trading, is acknowledged to fall under Article 40 (ii) of the FIEA and Article 123, paragraph 1 (v) of the Cabinet Office Ordinance on Financial Instruments Business, etc.

2. Remedial Actions

We have implemented training and awareness programs to management and employees in an effort to improve the situation. In addition, we will conduct the following measures as follows and will also continue to strive for further improvement through voluntary actions.

- (1) Establishment of a Task Force to Enhance Management of Corporate Information
In April 2012, we established a "Task Force to Enhance Management of Corporate Information", a subordinate body to the Compliance Committee which is an advisory function to the Board of Directors. We will monitor and enhance further reliable Corporate Information controls.
- (2) Enhancement of Securities Trading Supervisory Operation Division
We established a new Corporate Information Control Department within the Securities Trading Supervisory Operation Division in March, 2012 to research relevant laws and regulations concerning Corporate Information, to fully establish management and supervisory systems regarding Corporate Information, and to enhance the monitoring capabilities with additional staff.

(3) Provide More Sophisticated Training

We have provided all management and employees with annual training to reinforce and improve training on Corporate Information management. An awareness program was initiated through training sessions from January 2012. We will continue to provide highly effective training programs to enhance the understanding of Corporate Information by all managers and employees and increase their awareness of the importance of appropriate control of Corporate Information.

(4) On-going Monitoring

After the incident subject to the Recommendation by the SESC, for public offering transactions we have monitored all transactions where SMBC Nikko assumed a role as lead manager and found no problematic cases. We will continue to perform such on-going monitoring of all the public offering transactions whenever we act as a lead manager.

(5) Clarifying Responsibilities

We will take appropriate actions with respect to the relevant persons involved pursuant to our internal rules.

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