

August 7, 2012  
SMBC Nikko Securities Inc.

**Improvement and Enhancement Measures on Control Systems over Undisclosed  
Corporate Information**

SMBC Nikko Securities Inc. (hereafter, "Nikko") submitted a report with respect to management and control of undisclosed corporate information (hereafter, "Corporate Information") to Financial Services Agency (hereafter, "FSA"), in accordance with Order for Submission of Report (hereafter, "Order") on July 3, 2012.

In accordance with the Business Improvement Order from FSA on April 20, 2012, we drafted the Business Improvement Plan as improvement and enhancement measures over systems in place to control and manage Corporate Information, and submitted the Plan to FSA on May 18. Upon receiving the Order, we reviewed our control systems over Corporate Information and established further improvement and enhancement measures. We will establish even stronger internal control systems through the steady implementation of these improvement and enhancement measures based on our public role of securities company, and Nikko will do our best to recover the confidence of customers and other interested parties.

Outline of our control systems over Corporate Information and further improvement and enhancement measures are as described below.

**1. Outline of control systems over Corporate Information**

Through establishing the "Regulations for Prevention of Insider Trading " (hereafter, "Regulation") and a Securities Trading Supervisory Operation Division as a supervisory division to control handling of Corporate Information, we enhance prevention of fraudulent trading which uses Corporate Information and insider trading by establishing definition of Corporate Information, reporting, handling of information, restriction on information transfer, prohibited acts, control systems over securities transactions.

We have implemented strict controls over Corporate Information under the Regulation by clarifying Units closely related to corporations which may obtain Corporate Information in the course of business (named as “Private Side” and other units named as “Public Side”), restricting information flow by establishing organizational/physical wall (Chinese Wall) in order not to transmit information to Public Side unintentionally from the Private Side. Status of control has been monitored by the Compliance Unit and audited by the Internal Audit Unit.

In addition, in February 2012, we have established a “Task Force to Enhance Management of Corporate Information” (hereafter, “Task Force”), a subordinate body to the Compliance Committee which serves an advisory function to the Board of Directors and appointed Internal Administration Supervisor as Chairman of the Task Force. The Task Force discusses the rules and regulations concerning Corporate Information, reviews case studies of peer companies, social situation, level of control systems over Corporate Information, and conducts monitoring of the effectiveness of the measures regarding control systems over Corporate Information and implementation of necessary enhancement measures.

## **2. Outline of further improvement and enhancement measures**

### **(1) Enhance further awareness to prevent insider trading**

- A) Clarification of our policy to claim damages caused by employees who are found to be involved in insider trading. (Scheduled from August 2012)

To make all executives and employees thoroughly aware of importance of compliance, we amend internal rules and clarify our policy that we shall claim damages caused by executives and employees who are found to be involved in insider trading with specific examples. We also explain simply and make executives and employees aware that, if they are involved in insider trading, they will be (a) exposed, (b) dismissed, and (c) charged with compensation for damages. We enhance their awareness of importance of compliance by the process above.

- B) Clarification of Prohibition of trying to obtain unnecessary Corporate Information. (Scheduled from August 2012)

We amend internal rules and clarify our policy that we prohibit executives and

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employees from trying to obtain Corporate Information which is unnecessary to their business. We also state clearly on the internal rules that executives and employees should immediately report to internal control managers, etc. when they are asked to provide Corporate Information or other information which is closely connected with Corporate Information by a person inside or outside of the company. Compliance unit check the situation based on the report and, if necessary, deal it appropriately by making them stop providing information, refuse businesses, etc.

(2) Making executives and employees who have no experience in the securities business thoroughly aware of the importance of compliance including control over undisclosed corporate information (“Corporate Information”).

A) Prohibition in principle of the appointment of a person who has no experience in the securities business to an executive director or an executive officer of a unit which obtains and handles Corporate Information (“Private Side”). (Scheduled from September 2012)

We will not directly appoint, as a general rule, a person who has no experience in the securities business to an executive director or an executive officer of a unit of the Private Side \* directly from outside Nikko. We will first appoint such person to a unit which does not obtain and handle Corporate Information for a period of at least three months, in order to make them familiar with information management rules which are unique to securities companies. Meanwhile, people who are considered to have adequate knowledge and are mindful of compliance requirements to perform business of securities company, such as people who have experience of securities business, are excluded from this rule.

\* Executive Directors and Executive Officers under the control of Capital Markets Unit (including the Head, same hereafter), Corporate Business & Investment Banking Unit, Financial & Public Sector Business Unit, Institutional Business Unit, Representative Managing Director of Osaka, and Representative Managing Director of Nagoya.

B) Enhancement of follow-up trainings for mid-career executives and employees. (Scheduled from September 2012)

We will provide mid-career executives and employees with follow-up trainings for the thorough awareness of importance of compliance, including the control of Corporate Information which is unique to securities companies on a continuous basis in addition to enhancement of initial trainings.

- (3) Adding recording function to mobile phones provided by the company (Scheduled date is under consideration)

To enhance monitoring function, we are planning to add recording functions to mobile phones provided by the company to executives and employees in sales unit of Public Side. At the same time, we thoroughly make executives and employees aware again that using private mobile phones for business purpose is strictly prohibited.

- (4) Monitoring over executives (executive directors and executive officers) by internal audit division (Scheduled from September 2012)

Currently, Statutory Auditors audit executive directors and executive officers by interviewing them, checking their major corporate decisions and use of social expenses and receiving from executives the confirmation letters with respect to the appropriateness of business execution, etc. In addition, we expand the scope of internal audit to executive directors and executive officers and internal audit division will conduct audit over executive directors and executive officers with respect to the management of Corporate Information and other aspects.

**Reference:** Outline of the improvement and enhancement measures as specified in Business Improvement Plan

- (1) Improvement and enhancement measures on establishment and application of rules and regulations
  - A) Increase the punishment for violations of laws and regulations and internal rules with respect to handling of Corporate Information.
  - B) Enhance the procedures on transmission of Corporate Information.
  - C) Distribution of portable reference manuals regarding the handling of Corporate Information to all the management and employees.
- (2) To make the management and employees thoroughly aware of importance of

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compliance including handling of Corporate Information

A) Provide intensive trainings to all the management and employees.

B) Continue providing effective trainings regarding Corporate Information control to all the management and employees.

(3) Improvement and enhancement measures on early detection of irregular activities

Make the management and employees thoroughly aware of significance of reporting irregular activities and whistle-blowing

(4) Improvement and enhancement measures on monitoring system

Enhance monitoring over internal emails and meetings.

(5) Internal audit over implementation status of the improvement and enhancement measures

**Attachment:**

List of Improvement and Enhancement Measures on Control Systems over Corporate Information

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List of Improvement and Enhancement Measures on Control Systems over Corporate Information

Subject		Concern/Problems	Further Enhancement & Improvement Plan	Achievement	FY 2012			FY 2013	
					Jul to Sep	Oct to Dec	Jan to Mar	Apr to Jun	
Control systems over Corporate Information		• Enhance control systems over Corporate Information	• Continuous efforts which have been already made such as Task Force *A subordinate body to the Compliance Committee which serves an advisory function to the Board of Directors in order to consult about control of Corporate Information periodically.	○ (Completed)					
Rules & Regulations	Rules & Regulations	• Enhance further awareness and understanding of the importance of laws, regulations and internal rules	• Prepare the portable reference manuals regarding the handling of Corporate Information which is easy to understand. (Distribute to all executives and employees and up-load on the internal web-site)		To be conducted by August 2012				
		• Enhance further awareness of the importance of prevention of insider trading	• Clarify internal rules to claim damages caused by employees who are found to be involved in insider trading, and make executives and employees thoroughly aware of it.		To be conducted by August 2012				
			• Clarify Regulation to prohibit trying to obtain unnecessary Corporate Information.		To be conducted by August 2012				
	Management	Establishment of Chinese Wall	• Reinforce strict information segregation between corporate related unit (Private Side) and non-corporate related unit (Public Side).	• Make continuous efforts to segregate information (between Private Side and Public Side) regarding offices, documents, electric files and others.	○				
		Report (Registration)	• Enhance control and restraint over Corporate Information by handling all the deals on each staff's individual	• Release new system to handle all the deals on individual basis.		To be completed by December 2012			
		Restriction on Information Transfer (OTW, "Over The Wall", etc.)	• More strict OTW application* required to Public Side. • More strict application of Need-to-Know principles for Private Side. *Procedures to transfer information to the third parties other than Private Side.	• Amendment of OTW application for Public Side has ensured that information has been placed under individual management instead of formerly practiced divisional management, and timing of information transfer, transmission route, as well as range of transmission has been clarified. Whenever rules change, all executives and employees will be notified appropriately.	○				
				• Present practical examples of Need-to-Know principles for Private Side to ensure all executives and employees thoroughly understand it.	○				
		Control over sales promotion activities and preventive measures to avoid inappropriate solicitation.	• Continue prohibition of inappropriate solicitation.	• Dissemination of continuous reminders to prohibit inappropriate solicitation.	○				
	Punitive measures	• Clarify punitive measures against insider trading, tip-off of information leading to insider trading and violation of Chinese Wall regulations.	• Revise Employee Handbook to clarify punitive measures which may include termination of employment if executives or employees were engaged in insider trading, tip-off of information leading to insider trading, and intentional violation of Chinese Wall regulations.		○				
			• Collect pledge letters from all executives and employees. (Letters will be continuously collected annually.)		○				
Training & Education	• Improve effectiveness of trainings regarding control of Corporate Information.	• Provide intensive trainings to all executives and employees.		○					
		• Provide interactive training for all executives and employees annually (In addition to annual CLS training, provide annual interactive training, and ensure that participants are aware if they belong to Public Side or Private Side.)			To be conducted by March 2013				
		• Improve effectiveness of training relating to Corporate Information. (Make training more sophisticated by explaining substance of fraudulent trading and presenting specific examples)			To be completed by March 2013 (To be practiced in a phased way)				
	• Improve awareness of the importance of compliance including controlling Corporate Information for executives and employees, who have no securities business experiences.	• Prohibit us from directly appointing employees who have no securities business experiences as executives (Executive Directors and Executive Officers) in charge of corporate related unit.			To be conducted by September 2012				
		• Provide follow-up trainings on a continuous basis for mid-career executives and employees in addition to trainings for new hires.			To be conducted by September 2012				

Subject		Concern/Problems	Further Enhancement & Improvement Plan	Achievement	FY 2012			FY 2013
					Jul to Sep	Oct to Dec	Jan to Mar	Apr to Jun
Early detection of irregular activities (including whistle blowing)		• Enhance system to detect irregular activities regarding Corporate Information in the early state	• Make all executives and employees understand the importance of whistle blowing system, and significance of informing or consulting with managers, Supervisors Internal Control, head office or Nikko Alarm* whenever they become aware of possible irregular activities regarding handling of Corporate Information. * Contact window for whistle-blowing.	○				
Monitoring	Chinese Wall	• Continue checking on handling of Corporate Information.	• Continue checking on handling of Corporate Information.	○				
	Report (Registration )	• Expand scope of monitoring by Securities Trading Supervisory Operation Division.	• Upon completing installation of new CRM*, monitoring by Securities Trading Supervisory Operation Division will cover all sales unit (The system will be installed at each division in a phased way. Investment Banking Unit already installed the system in June 2012.) *New Client Relationship Management system of corporate unit.		To be completed by November 2012 (in a phased way)			
	Restriction on Information Transfer	• Enhance Monitoring over internal meetings by Securities Trading Supervisory Operation Division. • Enhance inspection over internal meeting materials at each division.	• Start monitoring internal e-mails by keyword search.	○				
			• Securities Trading Supervisory Operation Division will attend meetings where plans for product sales are discussed (Meetings where Corporate Information may be unintentionally disclosed)	○				
			• Verify inspection system for internal meeting materials at the time of self-audit, and perform sample checking at self-audit.	○				
		• Necessity of monitoring conversation over mobile phone provided by company.	• Add recording function to mobile phones provided by company in sales unit of Public Side. (Thoroughly make executives and employees understand that it is prohibited from using private mobile phones for business purposes.)		Drawing actual plan			
	Fraudulent Trading	• Continue inspection for fraudulent trading	• Continue inspection for trading of the stocks registered as Corporation Information related shares by customers registered as internal person or our employees.	○				
Control over sales promotion activities and preventive measures to avoid inappropriate solicitation.	• Enhance monitoring over trading unit	• Enhance monitoring over trading unit by appointing full-time officer in charge of monitoring.	○					
Monitoring by Management	• Continue monitoring by management	• Continue monitoring by Task Force.	○					
Internal Audit	• Enhancement review over executives by internal audit	• Internal Audit Unit will audit executives (Executive Directors and Executive Officers).		To be conducted by September 2012				
	• Confirmation of implementation status of the improvement measures.	• Examination on implementation status of the improvement measures.		To be completed by March 2013.				