

### **Business Improvement Order by Financial Services Agency**

SMBC Nikko Securities Inc. ("SMBC Nikko") today received a Business Improvement Order ("Order") from the Financial Services Agency ("FSA") under the Article 51 of the Financial Instruments and Exchange Act, in connection with the Recommendation issued on April 13, 2012, by the Securities and Exchange Surveillance Commission ("SESC") to the FSA to take administrative action against SMBC Nikko in relation to inadequate controls over undisclosed corporate information (hereafter, "Corporate Information") and inappropriate solicitation.

In connection with the receipt of the Order, we express our deep regret and hereby apologize to our customers and all related parties for the concerns and inconveniences we have caused.

The Order issued by the FSA is summarized below. We accept the Order very seriously and will devote our best efforts to prevent recurrence of such incidents.

#### **1. Description of the Order**

- (1) To establish an effective system of internal controls by re-examining the controls over Corporate Information including supervision of sales employees and implement any other necessary improvement measures.
- (2) To make the management and employees thoroughly aware of importance of compliance, by conducting comprehensive and extensive trainings to ensure sufficient understanding of laws and regulations on the matter, including handling of Corporate Information.
- (3) To clarify the responsible management and employees involved in this issue.
- (4) To submit reports to the FSA on the implementation of the above-mentioned measures by May 18, 2012.

#### **2. Our Action**

We have implemented training and awareness programs to management and employees in an effort to improve the situation. In addition, we will conduct the improvement measures as follows. Moreover, in light of the gravity of the administrative order, we will also review the controls over Corporate Information again and further consider the necessary improvement measures and steadily put them into practice.

- (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 serves 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. And awareness program was initiated through training sessions starting 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, we have monitored all transactions where SMBC Nikko assumed a role as lead manager in public offering transactions 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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