

June 24, 2022  
SMBC Nikko Securities Inc.

**Public Announcement of Investigation Report of the Investigation Committee**

On March 4 and March 24 of this year, several of our former executive officers and employees were arrested by the Tokyo District Public Prosecutors Office on suspicion of violation of Article 159, Paragraph 3 of the Financial Instruments and Exchange Law (illegal stabilization transactions), and on March 24 and April 13 of the same year were prosecuted and we as a corporation were also prosecuted under the joint punishment provision. We sincerely apologize for the inconvenience and anxiety caused to our customers and other related parties.

We inform you that we have received today the Investigation Report of the Investigation Committee established on March 4 this year (chaired by Kenji Kawai, the former Chief Justice of Sendai High Court, Attorney at Tokyo Liberte Law Firm).

The Investigation Report evaluates the legal and compliance problems on trading on our account of the target shares related to the block offers that we handled, as inappropriate and unfair practices or actions that required careful consideration and response from the perspectives of (i) fair price formation, (ii) restrictions on the use of non-publicly known information that may affect investment decisions, and (iii) prohibition of conflicts of interest by securities companies.

We take the points raised by the Investigation Committee seriously and would like to once again express our deepest apologies for the situation that led to the Investigation Committee raising these points. Based on the cause analysis and the contents of the recommendations (as described below) pointed out by the Investigation Committee, we will work to strengthen the internal control system by formulating and implementing effective measures to prevent recurrence.

The "Investigation Report (Disclosure Version / Japanese only)" is attached as an appendix.

In the preparation of the Disclosure Version, some contents are not disclosed from the viewpoint of protecting the privacy of individuals involved in this case, preventing the spread of trade secrets, etc. of companies involved in this case, and avoiding as much as possible the impact on pending criminal proceedings.

We will continue to make improvements on a company-wide basis and strive to regain the trust of our customers and other stakeholders.

#### Note

##### ○Analysis of the cause of this case (applicable parts: pages 135 to 145)

1 Lack of self-discipline and systems that are commensurate with the potential risks in the securities business as a whole

- (1) Deficiency and ambiguity of business guidelines for trading on our account
- (2) Lack of discipline in the department in charge of trading on our account
- (3) Lack of effectiveness of review of trading on our account

2 Lack of compliance awareness throughout the company

- (1) Compliance awareness at the workplace level
- (2) Management-level compliance awareness

3 Dysfunction of the overall governance system

(1) Vulnerability of the system of the Trading Compliance department itself  
(2) Vulnerability of check-and-balance functions of the overall compliance-related departments

(3) Dysfunction of the reporting system to the Board of Directors, etc.

(4) Nonexistence of a system or entity to oversee cross-divisional businesses and conduct risk management

(5) Nonexistence of a department responsible for the company-wide uniform judgment and presentation of interpretations of laws and regulations

(6) Inadequateness of the audit function of the Internal Audit department

(7) Management culture that fails to make the most of the reflections of past scandals

(8) Dysfunction of the whistleblowing system

4 Weak positioning of compliance in HR policy

##### ○Recommendations on measures to prevent recurrence (applicable parts, pages 146 ~ 152)

1 Conducting review and overall inspection of business operations, including how the trading on our account should be handled

2 Raising the company-wide awareness of compliance and improving HR policies

3 Clear commitment and execution of duties by management

(1) Message from management and interactive communication with the workplace level

(2) Invigorate the Board of Directors, etc.

4 Strengthening the compliance system

- (1) Strengthening the mindset of compliance-related departments
  - (2) Development of effective reporting rules
  - (3) Clarification of department to be responsible and establishment of a continuous verification cycle
  - (4) Improving the effectiveness of internal audits premised on the existence of risks
  - (5) Review of human and material resource allocation
- 5 Establishing cycle that enables early detection of fraud, prompt response, and improvement of business operations
- (1) Establishing a system that does not overlook the seeds of fraud
  - (2) Nurturing corporate culture that encourages early detection, prompt response, and improvement of business operations

#### Appendix

- Investigation Report (Disclosure Version / Japanese only)

(Note 1) We substitute proper nouns such as personal names and company names into alphabetical characters.

(Note 2) In addition to the recurrence prevention measures recommended in the Investigation Report, we have formulated and are implementing measures to prevent recurrence for the time being. The outline is as described in (Reference).

## **(Reference) Our immediate preventive measures**

We established a project team (Internal Control System Strengthening PT) within the company on March 14, 2022, in order to fundamentally review our internal control system across the organization. This PT promotes analysis of true cause, and formulates and implements immediate measures to prevent recurrence. The following is the status of implementation of immediate measures to prevent recurrence corresponding to the recommendations of the Investigation Report.

### 1 Conducting review and overall inspection of business operations, including how the trading on our account should be handled

- Suspended new handling of block offer trading (since June of last year)
- Implementing reorganization of transaction types of trading on our account and stricter transaction rules (partially revised internal rules in May this year, and relevant changes are scheduled to be made in the future as necessary)
- Refining the sale and purchases review standards for trading on our account (addition of points to be considered for trade screening, expansion of transaction types subject to event examination, etc. were already implemented)
- Conducted questionnaire for all managers in the branches to identify potential risks (March to April of this year)

### 2 Raising the company-wide awareness of compliance and improving HR policies

- Continuously implementing officers' discussions on the true cause analysis and future response policies at the Board of Directors meetings, Management Committee meetings, and the meetings of the officers in charge of departments
- Conducted compliance training for executive officers and department/branch managers by outside lawyers on this matter (March this year).
- Conducting training for all employees on preventing unfair trade (July last year, March this year)
- Holding sessions to review of the Investigation Report (attached material) attended by all employees (scheduled to be held as part of the Management Philosophy Meeting to be held from July of this year)
- Implementing hearing of opinions from all executive officers and senior general manager, in order to revise and permeate the Code of Conduct throughout the company (partial revision of the Code of Conduct is scheduled to be implemented within this year after discussions at various meeting bodies)
- Reviewing the evaluation and compensation system for employees (introduction of 360-degree evaluation, etc.) (within this year)

### 3 Clear commitment and execution of duties by management

- Townhall meetings in all departments and branches led by management committee members incl. the president (planned for the second half of this financial year)
- Out of the potential risk events received in the department/branch manager questionnaire, listing the priority response issues and implement progress management at the Management Committee meetings (continuously being handled)
- Holding individual interviews by officers specially in charge of Internal Control System Strengthening PT with department/branch managers who responded to the above questionnaire (continuously being handled)
- Appoint as a non-executive director a former deputy president who is familiar with securities business (June of this year)

- Conducting questionnaire on all officers and employees regarding acts of concern for violation of the Financial Instruments and Exchange Act (April-May of this year).

#### 4 Strengthening the compliance system

- Strengthening the trading compliance function for trading on our account (the department in charge of trading on our account was newly established, the number of personnel of the relevant section was increased, and we will add relevant measures in the future as necessary)
- Strengthening the system in the trade screening process (from June of this year)
- Conducting a company-wide risk identification survey on business operations by the Audit Department (planned for April to July of this year)
- Formulating a Target Operating Model <sup>(Note)</sup> to strengthen the internal control system by utilizing external consulting firm (from April of this year)

#### 5 Establishing a cycle that enables early detection of fraud, prompt response, and improvement of business operations

- Establishing a framework for integrated management of important issues to be addressed by management (started operation in June of this year)
- Sending message from the top on the whistleblowing system (May of this year)
- Conducting training for managers to improve the psychological safety necessary to create a workplace where employees can speak up easily (plan to be held for all managers from July to August this year)

(Note) Target Operating Model means the model that our company aims to be our goal in terms of business content, organizational posture, and staffing.