Recognizing compliance and conduct risk management to be critical to overall management, Nomura Group has established the “Conduct Program,” a fundamental document that contains the frameworks and initiatives targeting compliance and appropriate conduct. This document is a key part of the Group's framework for achieving a high level of compliance and conduct risk management that transcends legal compliance.

Nomura Group engages in a variety of initiatives based on the Conduct Program to ensure that each and every member of the Group can act appropriately in accordance with the Nomura Group Code of Conduct, the guidelines stipulating the behavior required of professionals in a financial services group.

Compliance and conduct risk management system

All Group companies and departments establish thorough compliance, and establish adequate control frameworks to ensure that their members do not engage in activities suspected of being in violation of laws or regulations. In the event that such issues arise, they are reported to members of senior management and handled appropriately.

Based on the Conduct Program, Nomura Group has a Group Conduct Committee comprising executive officers which deliberates on organizational aspects and important matters related to compliance and conduct risk management. The committee also verifies the effectiveness of the Conduct Program through monitoring and other measures.

Approach to conduct risk management

- Compliance risk refers to the risk of incurring financial losses, including fines, or damage to reputation, as a result of violations of laws or regulations, actions that undermine the fairness and equality of financial markets, or improper conduct that adversely impacts client protection.
- Compliance risk includes conduct risk, which is the risk that the conduct of any member of Nomura Group deviates from the social norms and ethics required of a financial institution, and, as a result, adversely affects client protection and the soundness of the market.

Based on the non-financial risk management framework, Nomura Group has stipulated the approach and policies for conduct risk management in the Risk Appetite Statement and the Conduct Program. Based on the three lines of defense approach, as the first line of defense, division heads are responsible for managing conduct risk in their respective divisions. Each division has a Senior Conduct Officer, whose job is to assist the division head in managing conduct risk and keep the division head in check. Compliance and conduct-related departments are responsible for the second line functions. They provide advice and guidance with respect to the conduct risk management implemented by the first line of defense, keep the first line of defense in check, as well as monitor and verify the effectiveness of the first line’s measures. As the third line of defense, from an independent position, the Internal Audit Department studies and verifies the conduct risk management frameworks put in place by the first and second lines of defense, and gives advice for making improvements. Conduct risk management is conducted in accordance with the PDCA cycle approach. Under this approach, risks are identified, then assessed using the Risk and Control Self-Assessment (RCSA), controlled to prevent risks from materializing, and monitored using various indicators such as Key Risk Indicators (KRI).
Nomura Group believes that compliance is not limited to legal compliance, but is also a means of satisfying society’s expectations and engaging in common-sense behavior. We continuously work to strengthen our internal control system in order to achieve a level of compliance and conduct risk management surpassing legal compliance alone.

**Compliance Hotline**

The firm has established the Nomura Group Compliance Hotline in order to maintain and ensure an effective compliance framework at each Nomura Group company. This Compliance Hotline is a means for all persons working at a Group company (including contract employees, temporary staff, etc.) who become aware of a potential legal or regulatory violation, an action that threatens the Nomura Group Code of Conduct, or a suspicious action related to accounting or accounting audits, to directly report such information to specified persons, including outside attorneys, designated by Nomura Group. Informants may also report through channels provided by specialist outside entities and have the option of remaining anonymous. The Compliance Hotline is accessible 24 hours a day, seven days a week, and is available in English and Japanese. Matters reported through the Compliance Hotline are investigated under the direction of the person who received the report, while maintaining strict confidentiality for the reporting individual. If a problem is found, appropriate corrective measures are taken, and strict measures are in place to ensure that there is no retaliation against informants. Internal documents and the intranet are used to ensure that employees are familiar with the Compliance Hotline and to encourage them to use this system as necessary. By promoting the use of the Compliance Hotline, we are working to foster an environment in which anyone who senses something strange can speak up about it.

In FY2019/20, there were 101 calls received via the Compliance Hotline, and in all cases a thorough review was conducted and appropriate measures were taken.

In November 2019, Nomura was registered its whistleblowing system under the Japan Consumer Affairs Agency’s “Whistleblowing Compliance Management System (WCMS).”

**Segregation of customer assets and information security**

In accordance with applicable laws and regulations, including the Financial Instruments and Exchange Act and the Personal Information Protection Act, Nomura Group works to properly protect customers’ assets and information. Proper segregation of customer assets Nomura Securities properly segregates the assets of its customers from the assets of Nomura Securities itself. Nomura Securities has requested that EY Shin Nihon LLC provide “Assurance related to legal compliance with segregated management of customer assets” in accordance with Financial Instruments Transaction Guideline No. 30 of the Industry Committee of the Japanese Institute of Certified Public Accountants. As of March 31, 2020, Nomura Securities had received from the auditor a written assurance to the effect that management’s arguments in the management report on the segregation of customer assets were consistent with laws and regulations in all material respects. For more information, visit our website.

**Effective protection of clients’ personal information and other information assets of the Group**

The Nomura Group Information Security Policy provides the basic principles for appropriately protecting information assets. Each Group company has its own information security related regulations in accordance with this basic policy. We are also working to enhance the management of information provided to customers in accordance with the characteristics of each company’s business activities. In particular, customer-related personal information is handled in line with rigorous standards set out in the Nomura Group Privacy Policy and other information security related rules, and is handled in full compliance with the Personal Information Protection Act and other related laws and regulations. For further information, please refer to our website. We are considering introducing and using various IT tools required in the course of promoting new work styles such as telecommuting and web conferencing, from the perspective of making sure that data are properly managed. 
Ensuring fair financial business practices

Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)

The Nomura Group Code of Conduct sets forth the basic policy of preventing money laundering and combating the financing of terrorism (AML/CFT) with a high level of control to prevent proceeds from criminal activity from flowing into the financial and capital markets or to be used to finance terrorism. Nomura has also established the “Nomura Group Anti-Money Laundering and Combating the Financing of Terrorism Policy,” a global policy on AML/CFT that stipulates the common rules to be established in each region and at each subsidiary. We have also established specific standards that apply across the entire Group in areas of particular importance, such as client due diligence and responding to economic sanctions. Nomura Group is working to strengthen its AML/CFT management system throughout the Group by complying with the laws and regulations of each country and by closely monitoring international regulatory developments, including recommendations by the Financial Action Task Force (FATF).

The Group AML/CFT Head is responsible for establishing and maintaining the effectiveness of Nomura Group’s AML/CFT management system.

The Financial Crime Department was established to assist the Group AML/CFT Head in maintaining an effective AML/CFT management framework. Each Nomura Group company designates an Anti-Money Laundering Compliance Officer who is responsible for that company’s AML/CFT management framework. Nomura Securities appoints AML/CFT Officers in each department and branch to oversee the planning and implementation of the AML/CFT management framework.

Concrete measures to prevent money laundering

Using a risk-based approach, Nomura Group has established a range of measures aimed at preventing money laundering and other illegal activities.

Examples of Nomura Securities’ measures

Customer due diligence
Due diligence when clients open accounts and continuous updates of client information, etc.

Transaction monitoring
Introduction of a system to monitor abnormal transactions

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Due diligence when clients open accounts and continuous updates of client information, etc.

Verification and check of the status of AML/CFT, and reconsideration and improvement of the management framework

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Examples of Nomura Securities’ measures

Customer due diligence
Due diligence when clients open accounts and continuous updates of client information, etc.

Transaction monitoring
Introduction of a system to monitor abnormal transactions

Formulating, implementing, verifying, and reviewing policies, procedures, plans, etc.

Verification and check of the status of AML/CFT, and reconsideration and improvement of the management framework

Three lines of defense

Implementing risk mitigation measures through the first line (sales departments), checks and balances through the second line (compliance-related departments), and independent verification through the third line (Audit Division)

Group-wide management framework

Established the “Nomura Group Anti-Money Laundering and Combating the Financing of Terrorism Policy” to strengthen the internal control system throughout the Group. In addition, regular training and education on AML/CFT are conducted to foster awareness within the firm. Training is provided to all employees and Group companies, as well as to employees by position and department.

Elimination of transactions with anti-social forces

In order to eliminate transactions with anti-social forces, the Nomura Group Code of Conduct stipulates that all executives and employees must understand and comply with all applicable laws and regulations, including laws regulating bribery and tax evasion. Suspected violations of laws and regulations, including bribery, and acts in violation of the Nomura Group Code of Conduct are subject to reporting under the Nomura Group Compliance Hotline. Nomura Securities has established the “Guidelines for Gifts and Entertainment” applicable to entertaining public officials as well as officers and employees of private sector organizations, and strives to prevent bribery and ensure fair transactions by carrying out continuous training to make sure all people in the company are aware of and understand these guidelines. We also monitor the use of entertainment expense accounts to ensure that they are used appropriately.

Prevention of insider trading

In accordance with laws and regulations, Nomura Securities prohibits accepting orders knowing that they violate or are likely to violate insider trading laws and regulations. Also, in order to prevent insider trading, we have prepared an insider registration card. When accepting an order from a related party of a listed company (an insider), we first confirm that the order will not be an insider trade or the party in question does not possess undisclosed material information. Furthermore, Nomura Securities has established the “Regulations on Material Nonpublic Information obtained from Public Officials.” These regulations stipulate the systems for managing and reporting undisclosed corporate information and undisclosed material information, as well as the prohibited acts such as soliciting securities if in possession of such information.

Measures to prevent conflicts of interest

Nomura Group provides global financial services through numerous Group companies. We have established a conflict of interest management system based on the “Nomura Group Conflicts of Interest Management Policy” to ensure that conflicts of interest with customers do not materialize. Specifically, each Group company develops its own system to appropriately manage conflicts of interest. Nomura Holdings’ Group Compliance Department, which is in charge of managing conflicts of interest, determines whether a risk of conflicts of interest exists within Nomura Group. If there is concern about a conflict of interest, the Nomura Holdings Group Compliance Department appropriately manages the situation to prevent any conflicts of interest from materializing.

Examining market manipulation and other unfair transactions

Nomura Securities examines transactions on a daily basis to determine whether there is a risk that our own transactions, or those we execute on behalf of clients, could constitute unfair trading, such as market manipulation, intentional market formation, or insider trading. Based on the review, we interview and give warnings to those persons who have engaged in transactions that are suspected of being unfair. We continuously monitor transactions in accounts for which we deem there to be a risk of recurrence of suspicious trades. If no improvements are seen, we stop executing received orders, and take other appropriate measures. In addition, we periodically analyze the results of examinations, verify the effectiveness of the examinations and the soundness of the examination system as part of our effort to build and maintain an appropriate trading management framework.