

Measures to Prevent Recurrence of JGB Futures Incident

Tokyo, October 31, 2024—As notified in the “[Statement on Administrative Action by Japan's Financial Services Agency](#)” issued today, Japan's Financial Services Agency issued an administrative monetary penalty payment order of 21.76 million yen against Nomura Securities Co., Ltd. for unlawful trading of Japanese government bond futures in March 2021. Nomura Securities paid the monetary penalty today.

We have been working to revise our JGB futures trading operations since these transactions occurred.

We have outlined measures to prevent a recurrence of this incident below. By fully implementing these measures, we will further enhance our compliance framework and internal controls to prevent similar incidents and to regain trust.

Prevention Measures

1. Outline of the incident

On March 9, 2021, between 8:45:49 am and 2:16:59 pm, an employee involved in proprietary trading placed multiple sell orders on the Osaka Exchange for Japanese government bond (JGBs) futures at the best offer or inferior prices to layer the ask order book, while buying the same JGB futures at a lower price, and placing multiple buy orders at the best bid or inferior prices to layer the bid order book, while selling the same JGB futures at a higher price.

By repeatedly placing such sell and buy orders, the employee placed a total of 2,466 unit sell orders while buying a total of 462 units, and placed a total of 1,619 unit buy orders while selling 462 units. The series of derivative transactions and orders misled the market into believing that futures trading was thriving, potentially causing fluctuations in futures prices on the Osaka Exchange.

2. Cause of the incident

Stringent compliance and prudent risk management are fundamental to our firm. Nomura has implemented various measures to strengthen our internal controls, including incorporating ERCC Rating (Ethics, Risk Management, Compliance and Conduct) into employee assessments.

To ensure that all employees actively participate in risk management, we have implemented the Three Lines of Defense as part of our risk management framework, with Front Office (first line), Compliance-related departments (second line) and Internal Audit (third line) each having responsibilities for managing risk.

Based on past incidents at other companies, we have worked to strengthen our management framework. However, we recognize that the incident was caused due to insufficiencies in the following areas.

- The trader's awareness of market manipulation, and proper training to enhance awareness
- Trading management framework in front office
- Trading surveillance system in Compliance
- Communication between front office and Compliance

3. Measures to prevent a recurrence

In light of the causes stated above, we will implement the following measures to prevent a recurrence of this incident.

(1) Front Office prevention measures

(I) Measures to strengthen traders' awareness

We conduct training in Front Office on an ongoing basis on unlawful trading using past incidents as examples. In light of the incident, we conducted training for all traders regularly involved in JGB futures trading. We will continue to conduct training to further deepen their understanding and instill a high level of awareness of unlawful trading, including market manipulation.

We will hold new regular meetings involving Compliance to share examples of unlawful trades and have discussions among participants to embed a deeper understanding.

In addition, while conduct is currently included in HR evaluations, we will work to further enhance this by deepening the involvement of HR and Compliance.

(II) Strengthening trading management in Front Office

For departments that mainly deal in JGB futures, in addition to the current monitoring of market risk by managers, we began monitoring of JGB futures orders and cancellations to strengthen our front office trading management framework. We started conducting regular checks on the system for suspicious transactions such as layering, as well as having each trader's orders and cancellations checked by a superior after the close of trading hours. To ensure front office trading management operations are carried out properly, within the Front Office Supervision (FOS) framework, we follow up to make sure post-trade checks are conducted and review the monitoring status.

(2) Prevention measures in Compliance

While at the time of the incident Nomura Securities' trading surveillance system could detect cancellation of trades exceeding a certain volume, the system was not designed to detect a series of layered transactions like the one in this incident. We have already upgraded the system to detect layered orders and cancellations, and have not detected any such transactions since the upgrade.

We will continue to conduct regular reviews of our surveillance and oversight functions, including our trading surveillance system, incorporating both internal and external perspectives to make improvements.

Front Office and Compliance will enhance regular communications on transaction monitoring, sharing their perspectives and any challenges and issues in order to develop more sophisticated surveillance and oversight functions.

(3) Verification by Internal Audit

Internal Audit will verify the progress of prevention measures, confirming the status of operations in the first and second lines of defense and their effectiveness. In addition, to improve Nomura Group's control environment, we will work to further enhance the internal audit program.

(4) Establishment of new organization

In light of the above prevention measures, we have established the Global Markets Surveillance Strategy and Planning Department to ensure the swift implementation of measures in Front Office and Compliance and lead the enhancement of monitoring.

With regard to Front Office and Compliance initiatives to prevent recurrence mentioned above, the new department will take the lead in confirming the implementation status of each initiative and conducting objective verifications of their effectiveness.

In addition, to enhance monitoring, the department will analyze trends in the regulatory environment in major markets and tap into external expertise to draw up and revise our responses to the specific challenges identified. The department will also develop talent that can carry out these responsibilities on an ongoing basis and the organization's operations.

(5) Management initiatives to reinforce compliance with laws

In April 2024, Nomura announced our Group Purpose: "We aspire to create a better world by harnessing the power of financial markets". As part of initiatives to put our Purpose into action, we will address the theme of our group's responsibility in cultivating robust financial markets. We are dedicated to instilling this understanding among all executives and employees.

In addition, we will include this incident in our regular compliance and conduct training for all executives and employees. We will share the issues involved in the incident, focusing on

enhancing awareness of our fundamental role in ensuring market fairness as a securities company and confirming what we need to pay particular attention to in our business to ensure market soundness. Through the training, we will strive to deeply embed the values and code of conduct required of a securities company into our employees, raising awareness around questioning norms and reexamining existing values.

4. Accountability

In regard to this incident, a portion of executive compensation will be voluntarily returned as outlined below.

(Time of incident: March 9, 2021; Recommendation: September 25, 2024)

At time of incident: Representative Director and President	Voluntary return of salary 20% x 2 months
At time of recommendation: Representative Director and President	Portion returned 20% x 2 months
At time of incident: Director, Executive Vice President, Global Markets At time of recommendation: Representative Director, Deputy President	Portion returned 20% x 2 months
At time of recommendation: Senior Corporate Managing Director, Japan Head of Global Markets	Portion returned 10% x 2 months
At time of incident: Senior Managing Director, Global Markets At time of recommendation: Senior Managing Director, Global Markets	Portion returned 20% x 2 months
At time of incident: Representative Director, Deputy President, Compliance and Legal; Internal Control Supervisory Manager	Portion returned 10% x 2 months
At time of recommendation: Senior Corporate Managing Director, Compliance and Legal	Portion returned 10% x 2 months
At time of incident: Senior Managing Director, Compliance At time of recommendation: Representative Director, Senior Corporate Managing Director, Compliance; Internal Control Supervisory Manager	Portion returned 20% x 2 months

Strict disciplinary action has been taken against the trader and relevant managers in accordance with internal rules and regulations.

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Nomura

Nomura is a global financial services group with an integrated network spanning approximately 30 countries and regions. By connecting markets East & West, Nomura services the needs of individuals, institutions, corporates and governments through its three business divisions: Wealth Management, Investment Management, and Wholesale (Global Markets and Investment Banking). Founded in 1925, the firm is built on a tradition of disciplined entrepreneurship, serving clients with creative solutions and considered thought leadership. For further information about Nomura, visit www.nomura.com.