

August 13, 2018

Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.

Regarding remediation measures concerning recommendation case by Securities and Exchange Surveillance Committee

On June 29, 2018, Securities and Exchange Surveillance Committee (SESC) announced the recommendation of the payment order of the surcharge to the Prime Minister and the Commissioner of the Financial Services Agency (FSA) regarding an act carried out by a member of our company. We have analyzed the facts and causes of the incident and decided remediation measures as shown in the appendix.

We would like to sincerely apologize to our clients and stakeholders for the inconvenience this incident has caused.

From now on, we will implement remediation measures decided by our company, strengthen our internal control system, and strive to restore trust from clients and other stakeholders by our company-wide efforts.

End

【Appendix】

The Remediation Measures

1. Summary of the Findings

As stated in the SESC's recommendation to FSA, our employee who engaged in Japanese Government Bond (JGB) Futures dealing, from 6:34 PM to 7:09 PM on August 25, 2017, placed buy orders for 6,253 units and sold 177 units by placing a large amount of buy orders at or below the best bid price, and placed sell orders for 1,844 units and bought 158 units by placing a large amount of sell orders at or above the best offer price for JGB Futures market in the Osaka Exchange. These transactions constituted a series of JGB Futures that would mislead other investors into believing that JGB Futures were thriving and would cause fluctuations in the market of 10-year JGB Futures.

2. Cause

Although we, as a participant in the global financial markets, promote employee education through training to strengthen the compliance system within the company and to ensure the fairness and transparency of the market required by the Financial Instruments and Exchange Act, we recognize that monitoring, supervising and educational training for market manipulation with regard to JGB Futures were still insufficient.

In order to prevent such issues, we have decided to take measures as described below. We will steadily implement those measures and strengthen our internal control system.

3. Remediation Measures

First of all, we would like to briefly explain our current risk control system (three lines of defense) as follows.

In order to clarify the roles and responsibilities of each functions engaged in risk control, we classify the organization into first line of defense, second line of defense and third line of defense. We have built the framework on those "three lines of defense ". Front Office, compliance related divisions and internal audit division constitute first, second and third line defense functions respectively, and have an established, and appropriate, governance structure with sufficient authority, capability and independence to fulfill defense requirements. Under that framework, each business and product are managed and controlled. However, the "three lines of defense" had not functioned effectively

enough with regard to control over the market manipulation in long-term JGB Futures transactions.

Remediation measures are as follows.

(1) Remediation measures by the First Line

① Improvement of monitoring framework at Front Office

We have enhanced the monitoring in the First Line. Previously, we could only confirm the contents of the deals executed. We developed an IT system to extract the contents of all orders (including unexecuted orders) so that we can detect suspicious transactions. The Line Manager has already started running checks during the trading hours, using the IT system developed.

In addition, we have started post-trade data monitoring. Monitoring results are submitted to the General Manager and Internal Controller on a daily basis as well as to all dealers.

② Improvement in controls by supervisors

Supervision by the Line Manager at the time of the incident had focused on market risk management and management of specific issues as they arose. As part of our remediation measures, we have enhanced supervision, for example we have increased visual observation checks and improved our communication and monitoring by direct supervisors.

③ Enhancement of contents and frequency in educational training

We have enhanced educational training for dealers to strengthen and foster a culture to prevent misconduct. The intention has been to help employees digest and understand the content well, by increasing its relevance to their daily jobs and by increasing the frequency / repetition of training.

(2) Enhancing the surveillance system in the Second Line

Post-trade surveillance on long-term JGB Futures was out of scope at the time of the incident. Since October 2017, we have started surveillance for the entire quantity of ordering and execution data for JGB Futures. In addition, we are developing IT system to improve monitoring accuracy. The system development is scheduled to complete at the end of December 2018.

In addition, within the compliance control division of Mitsubishi UFJ Securities Holdings Co., Ltd. (MUSHD), our direct holding company, a function will be established and staffed to collect and analyze regulatory and industry information from domestic and international markets, so that affiliates can continuously upgrade internal control system responding to changes and evolution in the environment.

(3) Measures by the Third Line

In response to the incident, Internal Audit will conduct an audit of "bond trading management framework" in the second half of fiscal year 2018 and periodically onwards. Internal Audit will confirm the effectiveness and adequacies of the remediation measures created by the First Line and the Second Line, and evaluate the operational status of those. Internal Audit will also comprehensively examine the management framework, point out any vulnerability and request improvement. In addition, against reinforcement of domestic/ international regulations and emergence of new trading methods, Internal Audit will verify the observance status of them, and will aim to contribute to the enhancement of our internal control framework for preventing violations of laws/regulations in the first place.

(4) Communication between the First line and the Second Line

We will improve communication between the first and second lines, actively exchange information and opinions on changes in the environment and new movement, mutually cooperate to develop and implement cultures to devise and implement countermeasures to those changes. We will also reflect the results of such discussions in policies and procedures to help employees take the right actions.

(5) Enhancement of Corporate Culture

Senior executives of the Company recognize the root cause of the incident to be the insufficient penetration of the awareness of the right market conduct. We will carry out the following as measures to strengthen corporate culture.

① Introduction of Front Office Supervision Program

We will introduce to the Global Markets Front Office the Front Office Supervision Program (advanced voluntary checking program under front risk ownership) which has been implemented in MUSHD's international affiliates, in order to enhance the capability of front office to be accountable for its risk detection, assessment and mitigation.

② Establishment of the Market Conduct Forum

We will establish a "Market Conduct Forum" for the dissemination of Conduct Culture to "do the right thing". The Forum will consist of the CEO and senior executives in the business front lines and control lines. It will focus on market conduct related matters and will provide a place for discussion regarding the cause of conduct incidents, measures for improvement, and monitoring of our progress,

where the senior executive team will lead the way to strengthen the conduct culture.

③ Reflecting the conduct viewpoint within the company-wide culture project

We and MUSHD have decided to launch a company-wide project to build a "robust corporate culture to support a change of business model under the new Medium-Term Business Plan for FY2018, 2019 and 2020" from the second half of FY2018. The measures to strengthen our conduct culture will be led and promoted by the senior executive team.

(6) The Group wide sharing of remediation measures and their follow-up (PDCA)

We will validate the effectiveness of remediation measures in the PDCA cycle and correct the shortfall or add necessary remedial measures to persistently aim for higher standards. In addition, we will share and utilize the measures, mindset and information within the Group entities through MUFG compliance divisions in order to ensure the fairness and transparency of the market.

4. Clarification of responsibilities of executives and employees

(1) Clarification of responsibilities of executives

- Executives requested voluntary return of compensation as follows.

Executives	Sanction	Amount
(A)Date of SESC announcement for recommendation : June 29, 2018 (B)Date of incident occurred : August 25, 2017		
(A)Deputy Chairman (B)President and CEO	Voluntary return of compensation	20% x 2 months
(A)President and CEO (B) 【Not yet joined to MUMSS】	Voluntary return of compensation	10% x 2 months
(A)Deputy President, Head of Global Markets Business Unit (B) Same as above	Voluntary return of compensation	20% x 2 months
(A)Senior Executive Officer of Internal Audit (B) Senior Executive Officer of Compliance	Voluntary return of compensation	10% x 2 months
(A)Executive Officer, Head of Fixed Income Group (B) Same as above	Voluntary return of compensation	10% x 2 months

(2) Clarification of responsibilities of employees

- We have taken strict disciplinary action with relation to the dealer and managers according to our internal policy.

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