

# Regaining the Trust Lost from the Violation of Insider Trading Regulations



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The violation of insider trading regulations caused a significant loss of trust in the capital markets and damaged the trust our clients hold in the company. One of the Group's Management Principles is to "adhere to the principles of sound management based on a high degree of self-discipline with the background of 'Trustee Spirit' and earn strong credibility from society." Based on this principle, the Group has resolved never to repeat the same mistake and is implementing initiatives to rebuild the trust. In September 2012, employees gathered from various positions and departments within the company and held a meeting to exchange opinions on what needs to be done in order to rebuild trust.

## Feedback from Clients and the Public

**Moderator:** The recent violation of insider trading regulations has caused a loss of trust in the capital markets itself. What kind of reactions have you received from pension-fund investor clients, who were caused great inconvenience by the incident?

**Kamisawa:** In my opinion, forgiving or not forgiving the action is not generally a matter for clients to deal with, given the nature of insider trading. I think their concern is instead that we ensure thorough compliance with market rules and secure sound and appropriate operations. We felt insecure for a period ahead of the release of the Third Party Committee report on June 8, and some clients were worrying whether these two cases might be just the tip of the iceberg. But after June 8, we were fortunately able to receive understanding from a greater number of clients by carefully explaining the report because it was prepared based on a very extensive and detailed investigation.

The measures to prevent recurrence include a lot about corporate culture and climate. I felt they could bring a certain degree of assurance to clients who had concerns about recurrence. Another good point was that the investigation was conducted by the Special Investigation Committee and the conclusion was verified by the Third Party Committee.

Yet when we consider the core purpose of trust, we must take very seriously the fact that we have damaged our "credibility as a trustee" with clients who have trusted us and entrusted their funds to us. Now a yellow card has been issued, the next time would be a red card. While feeling very grateful to the clients who continue to do business with us, we should never forget this incident as we strive to restore the damaged trust as much as possible.

**Moderator:** What is management's stance on tackling this incident?

**Kitano:** I think this incident brought us face to face with a reputational crisis greater than we have ever experienced before. When the initial recommendation for the issuance of an order to pay an administrative monetary penalty was made in March, a statement by the Securities and Exchange Surveillance Commission was reported by the media; "The act is unprecedented in the sense that it was conducted by a trust bank, of which a high degree of morality and self-discipline are required." The name "Sumitomo Mitsui Trust Bank" was repeatedly mentioned on television, and it was a difficult period marked by insecurity for both employees and their families.

Our publicly announced Ideal Model ("Vision") begins with the phrase "a high degree of self-discipline with the

background of “Trustee Spirit” and makes a pledge to “create distinct values” in the same context. That is our vision of “The Trust Bank.” However, this incident marked quite a sudden departure from this vision for the new company, and it had to embark in the midst of a storm.

The Third Party Committee report released on June 8 contained an instruction for us: “As a financial institution with a company name containing the word ‘Trust,’ reconfirm that your corporate philosophy is to use your utmost efforts for your customers’ interests.” This really rings true, and personally I am determined not to forget June 8, the day the report was released.

I believe the first step toward regaining trust is for each of us to build up our “trust balance.” To put it in terms of a bank account, this incident is like a big “withdrawal.” We now must work to gradually make “deposits” to redress the balance and saving is our business as a bank. We aim to become a bank that is thoroughly reliable.

### Measures to Prevent Recurrence on the Front Lines

**Moderator:** What kinds of countermeasures to prevent recurrence are being implemented in the Fiduciary Services Business, where the incident occurred?

**Ishizaki:** The first recommendation was made in March, before the bank’s integration, but we regarded it as a group-wide problem and took action. The Special Investigation Committee was established at the holding company, and we immediately took action on the framework of measures to prevent recurrence. The measures were completed based on an evaluation by the Third Party Committee on the appropriateness of the verification results of the Special Investigation Committee. Although the measures are quite wide-ranging, they can roughly be divided into: (i) enforcing organizational systems; (ii) stricter business operations; and (iii) enhancing compliance awareness and building a corporate culture of compliance. As for the measure for

stricter business operations, rules were reestablished in line with the reality of fund management operations and from a global-standard perspective. The Third Party Committee deemed these measures to be sufficient and effective, and to have no risk of hindering operations.

Simply formulating the measures to prevent recurrence is not sufficient. In addition to that, ensuring that these measures are firmly implemented in operations is essential. Therefore, a system for monitoring the implementation of the measures has been established. The appropriateness of the measures is judged on a quarterly basis by outside experts such as law firms, and improvement proposals and advice are incorporated for continual refinement. As we believe that the public may feel that we still need observation, it is important for us to display that we are fully capable of compliance.

**Moderator:** How has the fund management front changed?

**Mukaihata:** The Equity Investment Department was the party directly involved with the violation of insider trading regulations, and we sincerely regret the great inconvenience this incident has caused to our clients and other stakeholders. Members of each team have carefully read through the rules, so that they can thoroughly confirm and implement them.

Specifically, face-to-face contact with sales persons from securities companies is generally prohibited under the new system. Also, all phone calls and emails with sales persons from securities companies are recorded without exception. As for evaluating securities companies, we have revised the traditional system of evaluating individual sales persons, thereby eliminating any incentive related to insider information. Moreover, we have reconfirmed that staff members are prohibited from accepting any entertainment or gifts.

In addition, we encourage staff members at the Equity Investment Department to use daily business logs for monitoring and have facilitated the department-wide “Compliance Joint Reform Project” aimed at getting back to the “Trustee Spirit.” These moves are in response to the point



raised by the Third Party Committee that mutual checks among department members did not readily function due to the self-contained nature of much of their business. In this project discussions were held five times in all, where all department members confirmed among themselves the need to: (1) fulfill their accountability to customers; (2) improve their skills and knowledge as professionals; and (3) adhere to compliance. I believe that thorough discussions like these will allow the new system to function properly, and that it will be necessary to continuously improve the effectiveness of measures to prevent recurrence to ensure that no misconduct will ever occur again.

**Kitano:** I think it is very meaningful that discussions were held five times. Despite the tendency to rely more on email as companies grow larger, I hope that staff members talk face-to-face with each other so they can see each other's facial expressions and attitudes.

### Initiatives in Each Department

**Moderator:** What kind of management has been conducted at branch offices to enhance compliance awareness?

**Awano:** At our retail business branches, some clients expressed concerns, saying such things as, "I trust the bank, but is it really trustworthy?" This has given me a strong sense of responsibility toward what needs to be done. At branch offices, we provided detailed explanations of the incident to individual Section Managers and also held training and study sessions numerous times for all employees, including part-time workers. In addition, we held discussions on the theme of "What is the 'Trustee Spirit'?" Because the incident did not occur on the sales front, we were concerned that branch employees might think of it as just "something that other people in other departments were involved in." But through the discussions, everyone was able to gain the understanding that any of us could come into contact with insider information. Furthermore, we were able to confirm with every branch employee our determined targeted direction, which is: to keep in mind that we represent the company on the business front lines, conduct sales from the clients' point of view, and conduct office work in a sincere and accurate manner. In an effort to retain this awareness, we strive to voice what we feel in our everyday business activities and have our voices be heard.

**Moderator:** How was the Wholesale Financial Services Business affected?

**Takano:** Fortunately, many of our clients were so kind that



they told us they would continue to do business with us as before. However, there were also those who told us they would refrain from doing new business with us for now. I believe that all sales persons in the Wholesale Financial Services Business felt the fear that we could lose all the trust and confidence our clients place in us in an instant. While the trust that we had built up allowed us to maintain business dealings with many clients, I think we have squandered that trust with this incident.

As obtaining various information from clients is our job as sales persons, we may come into contact with insider information without realizing it, so the risk we may find ourselves caught up in a similar incident is not zero. Accordingly, we are reaffirming our recognition that everyone has to understand and remain aware of this risk. We intend to keep an eye on the behavior of our subordinates and colleagues, and remind each other of this misconduct so that this kind of incident will never be repeated.

In addition, we must be careful not to have the wrong idea about "client-oriented" values, as was put forward in a discussion held within the department. Even when we do something with the assumption that it is for the sake of clients, if that act is in violation of laws, then it is by no means for the client's sake. We have to judge carefully whether our actions are truly based on "client-oriented" values and take a resolute attitude toward acts that conflict with these values in doing business.

**Moderator:** What kind of impact was there at the front lines of the retail business branches?

**Orita:** When news of the incident was reported in March, I was in charge of outside sales at the Nihonbashi Business Department. Because it is a traditional business district, our clients include active corporate executives. Among the reactions they shared with me were: "I'm seeing the scan-

dal a lot in newspapers," "It must be tough," and, "I have expectations for the new bank. I hope you will never let something like this happen again." Many clients at the Nihonbashi Business Department have been doing business with us for forty or fifty years. We truly regret that we caused these clients so much worry. We know we cannot afford to be complacent despite the fact that we received no harsh comments. We are aware that our clients have great trust in us. Accordingly, it could spell the end for us if we betray the trust by repeating a similar incident. Furthermore, even though no harsh words were handed down, we feel that there may have been some clients who lost faith in the new bank.

At the retail business branches, it seems that we have created an environment in which each employee recognizes the necessity of being aware of the issue by having reminders at morning and evening assemblies and conducting training and discussions.

Every one of us at branch offices represents the company in front of clients, so we must steadily make efforts, even if they look somber, to rebuild trust.

### The Mindset Employees of Trust Banks Should Possess

**Kitano:** When conducting our business, we need to have both reasonable business judgment and a legal mind. I think what we should aim to be is a business person with a legal mind.

**Moderator:** What is the relationship between the "Trustee Spirit" and the legal mind?

**Kitano:** As was mentioned earlier, we should not have the wrong idea about client-oriented values, and this is definitely something that cannot be permitted as a trustee. Doing our best for our clients under the precondition of legal compliance is the "Trustee Spirit."

**Awano:** Because the ideal "Trustee Spirit" changes in response to the changing views of society, it must be constantly sought without fixed goals.

**Kitano:** Our ideal model of "The Trust Bank" is the sum total of efforts made by individual employees, as they continue this goal-less quest in pursuit of a higher level of the "Trustee Spirit."

### Preventing the Incident from Being Forgotten

**Moderator:** What needs to be done to prevent the incident from being forgotten?



**Ishizaki:** I think we need to keep reminding ourselves in our everyday business activities that we are far from perfect. It was mentioned earlier that there were no goals, and this is really true. I believe that we have to continue striving to enhance the level towards perfection.

**Kamisawa:** I think if we create a corporate culture and environment where the violation of laws is unthinkable and if, within this environment, everyone strives to improve their expertise and business skills, does their best for their clients, and works willingly and openly with each other, then it would be unlikely for the incident to be forgotten, and also everyone's compliance awareness would steadily be enhanced.

**Ishizaki:** We have to regard compliance as something essential for the quality of our products, services, and performance. Although some people may see compliance as defensive, we have to consider compliance as an aspect of quality, and see that improvement of compliance would influence sales as well.

**Takano:** I think we need to keep recognizing that trust and confidence are our priceless values, just as smiles are for hamburger chain restaurants.

**Kitano:** I believe what is most important is for people to get together from various departments to discuss their thoughts, as we are doing today. I hope that this circle of discussions will be expanded so that individual employees can put into practice their own ideal models at their respective positions.

At the beginning, I mentioned that June 8 is a date I am determined never to forget. I would also like us to remember from time to time the day we became reborn as a trust bank.

**Moderator:** I hope you will keep expanding the circle of discussions after you return to your respective departments. Thank you for your participation.