

# Initiatives to Enhance and Sophisticate Operational Quality

Last year, it became evident that SuMi TRUST Bank has been handling the operations for the tallying of the voting rights exercise forms for the general meeting of shareholders of client companies in an inappropriate manner for many years. There was also a case of misconduct in which a former employee of SuMi TRUST Bank embezzled client funds. These incidents undermine the expectations and trust of clients and society towards our Group, and we have taken the issues very seriously.

We acknowledge anew that maintaining high operational quality is the source of strength of our trust banking Group and the foundation that earns the trust of our clients and society. We will strive to enhance and sophisticate our operational quality in order to respond to and exceed the expectations of stakeholders.

## 1 Process of Remedial Actions

### (1) Identify structural issues

We identified the structural issues inherent to the Group through interviews with each business and business management department.  
(See 2. Structural Issues of the Group for details)

### (2) Strengthen organizational functions

We strengthened the functions of the organization, including defining the roles of the organization in the action towards resolving the structural issues identified in (1).  
(See 3. Specific Actions for details)

### (3) Develop an operational structure to improve operational quality autonomously

We are undertaking step-by-step actions to ensure the effectiveness of organizational functions, embed risk culture in the organization, and develop a robust operational structure that can improve operation quality continuously and autonomously.  
(Initiatives for FY2021 and beyond)

## 2 Structural Issues of the Group

### Supervision across the Group

To date, the Group has had control functions within the Holdings company to supervise the Group companies. However, in light of the incidents that occurred last year, we acknowledged the need to improve our management and planning functions that can drive the strategies of other Group companies and optimize the allocation of resources in a manner that suits the operational features that are unique to a trust bank group.

### Risk management system that suits the trust business

Trust business requires significant expertise. Therefore, the Group acknowledge the need to strengthen the Three Lines of Defense\*, in which each business that is well-versed in its operation will serve as the first line of defense (hereinafter, "First Line") to first undertake autonomous PDCA as the main

actor to identify, evaluate, and control risks; then, the risk management departments as the second line of defense ("Second Line") will plan the necessary framework for such PDCA and oversee the Group to manage the risks; and lastly, the Internal Audit Department, or the third line of defense ("Third Line") will provide comprehensive assurance over the entire framework from an objective standpoint.

\* See page 117 for details.

### Sophistication of operational processes

Enhancing and sophisticating operational quality should not be temporary initiatives—continuous efforts are crucial. We acknowledge the need to develop a function to monitor the status of the processes as well as the associated risks and resources on an ongoing basis and to oversee them in their entirety.

## 3 Specific Actions

In view of the Group's structural issues, we will aim to build a framework that can enhance and sophisticate autonomous and continuous operational processes.

### (1) Restructure the risk management structure

#### 1) Strengthening of supervisory functions over Group companies

In an aim to drive the strategies of other Group companies and optimize the allocation of resources, we established an Affiliates Management Department to consolidate and strengthen the supervisory functions over Group companies within the Corporate Planning Department including the Asset Management Business Planning Department.

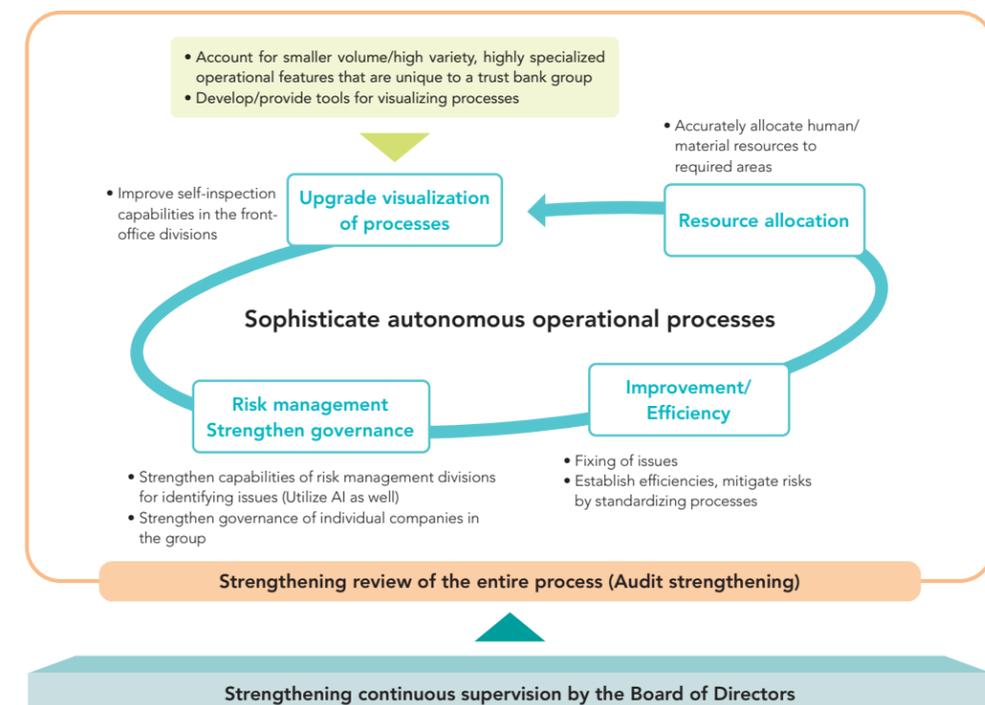
#### 2) Strengthening of supervisory functions over the operational processes

We added the functions to manage operational quality and operational risks within the Business Process Management

Department of SuMi TRUST Bank. In addition, we clarified that the Business Process Management Department of Sumitomo Mitsui Trust Holding is responsible for management and supervision of all the operation quality and quality verification functions across the entire Group, working to evaluate and sophisticate each business process based on a unified standard.

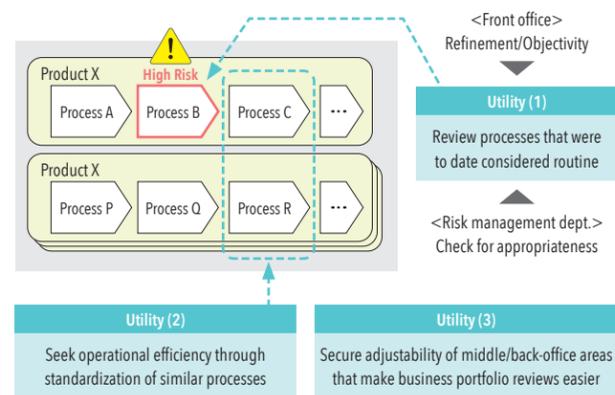
### (2) Enhance visualization of the processes

In order to make the Three Lines of Defense model work effectively, we must better visualize the processes and continually monitor and optimize the value chain of the entire Group. With better visualization of the processes, we can redevelop from scratch any process that were to date considered routine and eliminate potential risks at the First Line.



By conducting objective reviews of the visualized processes, the Second Line can strengthen its capability to detect problems within the process, and the Third Line can improve the effectiveness of the audits. By clearly defining the roles of the First, Second, and Third Lines of Defense as such and establishing common ground for risk awareness, we can promote mutual understanding, which will lead to preventing the occurrence of potential risks and fostering risk culture.

The visualization of processes can also help us identify



similar operations that were handled by different departments within the Group. We will seek to increase efficiency and reduce costs by standardizing the similar operations that are identified. In addition, obtaining and managing quantitative information on resources that are necessary to execute the operational processes will facilitate business portfolio reviews and enable us to enact faster and more flexible decision-making that meets the needs of clients and society.

### (3) Strengthening supervision by the Board of Directors

The Board of Directors receives regular reports on the status of these initiatives from the Internal Audit Department and Audit Committee, exercises supervision on an ongoing basis, and provides appropriate advice and recommendations depending on the status of the initiatives. In particular, we will focus our supervision on the following points to further strengthen the internal controls over the entire Group: (1) status of initiatives to enhance/sophisticate operational quality; (2) status of instilling sound corporate culture; (3) status of the effects of internal control functions based on communication and containment of information; and (4) status of the effects of the Board of Directors' check and balance function over management.

The PT was initially led by the officer in charge of the Compliance Department, and then by the President of SuMi TRUST Bank as the PT Manager from October 2020. In order to ensure a high level of independence, neutrality, and transparency, the PT consisted mainly of outside counsel and employees of various risk management departments who are responsible for monitoring and supervising the stock transfer agency services business from an independent standpoint. Based on the results of internal investigation conducted by the PT, SuMi TRUST Bank undertook cause analysis of the incident, formulated measures to prevent recurrence including the implementation of a new tallying system, and on December 17, 2020, announced the measures together with a statement on the clarification of responsibility of the incident.

We acknowledge that the major causes of the incident included the following:

### (1) Insufficient verification upon implementation of forward processing

We believe that the direct cause of the incident was that verification, at the time of implementing forward processing and upon revising the working-level rules thereafter, was not sufficiently conducted.

### (2) Framework for legal compliance

Focus was placed on following the predetermined working-level rules, lacking efforts to verify legality or appropriateness of the rules themselves.

### (3) Entrenched posting of staff

We placed emphasis on the specialized nature of the operation and restricted staff rotation, reducing opportunities to reexamine the operation from a new perspective.

## Implementation of a New Tallying Flow and Improvement of Capacity for Tallying Tasks

We ceased forward processing immediately after the discovery of the incident in September 2020. We changed the method of receiving Voting Rights Exercise Forms after confirming, through a review by outside legal counsel, the appropriate and legality of a new tallying method. Instead of receiving the Voting Rights Exercise Forms by delivery from the post office, we have established a post office box where we collect the Voting Rights Exercise Forms. The new method has been implemented for the Tallying Operations for AGMs of Entrusted Companies convened in March 2021, the first busy month since the occurrence of the incident. In addition, we have increased staffing and system devices, and improved capacity for tallying tasks by improving system functionalities

so that we can complete the Tallying Operations based on the actual dates the Voting Rights Exercise Forms are received from the post office even during the busy months. Currently, the Tallying Operation is being conducted in a strict and smooth manner under the newly implemented tallying method.

Revisions to the Tallying Operation Flow	
1	Bring forward the receipt of postal mail (by use of a post office box at the Shin-Tokyo Post Office)
2	Increase equipment and improve system functionalities
3	Increase staffing for Tallying Operations

# Report on the Inappropriate Tallying of Voting Rights Exercise Forms by the Group

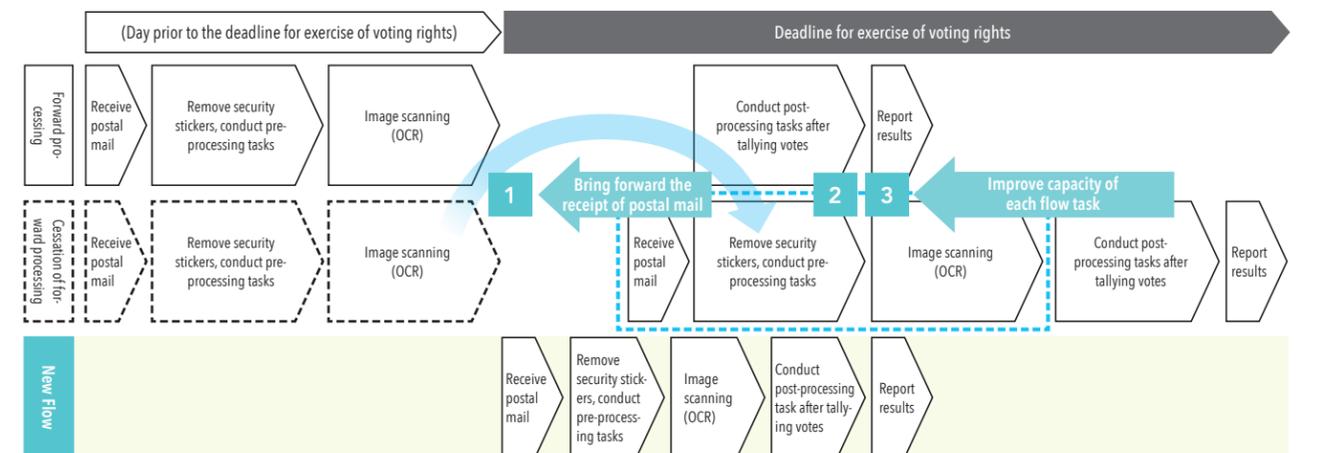
## Recognition of Inappropriate Handling in Certain Parts of the Operation for the Tallying of Voting Rights Exercise Forms

Sumitomo Mitsui Trust Bank announced in September 2020 that there has been some inappropriate handling in the operations for the tallying of voting rights exercise forms ("Voting Rights Exercise Forms") for the general meetings of shareholders (hereinafter, "Tallying Operations"), entrusted by our client companies (hereinafter, "Entrusting Companies") to the Bank and its consolidated subsidiaries, Tokyo Securities Transfer Agent, and Japan Securities Agents.

The Group entrusts its Tallying Operations to Japan Stockholders Data Service Company (hereinafter, "JaSt"). JaSt has been coordinating with the post office in order to secure time to conduct the tallying of large volumes of Voting Rights Exercise Forms during the busy months of March, May, and June each year, when there is a concentration of AGMs. JaSt has been receiving and tallying the posted Voting Rights Exercise Forms on the day prior to the delivery date on which the prescribed postal office tasks relating to said items were to

be completed. The post office had been issuing a Certificate of Delivery that bore the date on which the Voting Rights Exercise Forms should have been delivered to JaSt. As a result, the Voting Rights Exercise Forms were deemed to have been received on the date on the Certificate of Delivery, and JaSt had been conducting the Tallying Operations based on the date on the Certificate of Delivery (the series of processing described above is referred to as "forward processing").

Forward processing had been a long-standing practice, but in response to a request for investigation on the Tallying Operations from one of the Entrusting Companies, in September 2020 we set up a Stock Transfer Agency Services & Process Verification PT (hereinafter, "the PT") as a cross-sectoral organization between the Company and SuMi TRUST Bank including outside legal counsel to conduct a review. As a result, we came to recognize that certain parts of the Tallying Operations were handled inappropriately.



## Measures to Prevent Recurrence in Response to the Incident

Giving due consideration to the lessons learned and cause analysis of the incident, the Group will endeavor to prevent recurrence through the following initiatives.

Framework for legal compliance, etc.	<ul style="list-style-type: none"> <li>Further strengthen the involvement of the Legal and Compliance divisions in reviewing the legality of rules regarding operations entrusted to Group companies and external business operators</li> </ul>
Outsourcing management	<ul style="list-style-type: none"> <li>Conduct detailed management of the status of business operations of companies that are entrusted with important operation depending on the degree of legal and other risks involved in the entrusted operations and the degree of impact on stakeholders</li> </ul>
Internal audit structure	<ul style="list-style-type: none"> <li>Place greater emphasis on the effectiveness of our legal compliance system and enhance the effectiveness of audits, including audits of Group companies</li> </ul>
Fiduciary duties	<ul style="list-style-type: none"> <li>Expand and strengthen the education and guidance for employees, including Group company employees, in order to foster thorough awareness of the fiduciary duties to clients, shareholders of clients, and other stakeholders in the value chain of the services that we provide</li> </ul>

In addition to the above, the Group will implement the following initiatives for the stock transfer agency services business to prevent recurrence.

Strengthen our organizational structure and management system	<ul style="list-style-type: none"> <li>Strengthen the compliance/risk management functions and secure the independence of the organization</li> <li>Improve the monitoring function, including legal compliance, overseeing the Group companies</li> </ul>
Develop human resources and increase awareness of compliance	<ul style="list-style-type: none"> <li>Strengthen in-house training</li> <li>Identify job site issues from bottom up</li> <li>Rotate human resources in a planned manner to avoid entrenched posting and to develop talents</li> </ul>

## Efforts to Promote the Electronic Exercise of Voting Rights

Part of the background to the incident was the fact that a large number of voting rights are exercised in writing in the busy months when the dates of AGMs are concentrated, which results in a massive expansion of the Tallying Operations during these periods. In an aim to achieve a more accurate and speedy operations for the tallying of exercised voting rights and to promote a highly convenient electronic voting scheme for shareholders of Entrusting Companies, our Group will undertake initiatives for the promotion of electronic voting from two directions: expanding the user base of Entrusting Companies that employ electronic voting; and encouraging the use of electronic voting among individual shareholders who account for the majority of voting rights exercised.

### Initiatives toward expanding the user base of Entrusting Companies that employ electronic voting

- After March 2021, we promoted the use of electronic voting by reducing the costs of adopting electronic voting incurred by Entrusting Companies. As a result, 919 client companies entrusting services to SuMi TRUST Bank have employed electronic voting (an increase of 281 companies from the previous fiscal year; 66.3% adoption rate) as of June 2021.
- Through the expansion of user base of companies employing electronic voting, 94.1% of the shareholders of companies that convened their AGMs in June 2021 were offered the option to vote electronically.

### Promoting the use of electronic voting by individual shareholders which accounts for the majority of voting rights exercised

- We launched a present campaign\*1 to raise recognition and promote the use of voting by smartphone (hereinafter, "Smart Exercise") which offers a highly convenient voting method using QR codes. As a result, 435 Entrusting Companies that held their AGMs in May–June 2021 participated in the campaign.
- Of the Entrusting Companies that participated in the present campaign\*2, the percentage of voting rights exercised on or before the date of the AGMs increased significantly to 44.4% (up 8.4% year on year).
- Of the total voting rights exercised, the percentage of Smart Exercise votes came to 52.5%, indicating the effects of our promotion of electronic voting.

1	Promotion of exercising voting electronically (exercise of voting rights using PCs and smartphones)
2	Initiatives towards expanding the use of electronic voting platforms
3	Measures to support virtual shareholder meetings and digitalization of AGMs

In addition, we are also undertaking initiatives to promote the highly convenient electronic voting among institutional investors. To encourage the use of electronic voting platforms\*3 to be used by institutional investors to exercise their voting rights, we are actively encouraging issuing companies to participate. Furthermore, we have held discussions between relevant parties and made some progress in simplifying/eliminating the process of obtaining individual consent of each asset owner, which is a requirement in using the platforms through an asset administration bank.

The Group recognizes anew its responsibility as a trust bank group to serve as the backbone of corporate governance and to meet social expectations for steady and robust execution of operations, and we will endeavor to contribute to the sound development of capital markets.

\*1 A campaign in which shareholders who used Smart Exercise to exercise their voting rights and responded to a questionnaire after using Smart Exercise were offered a chance to win QUO prepaid card

\*2 Counts for 153 companies that concluded their AGMs between May 1 and June 23, 2021

\*3 A service offered by ICJ, Inc.