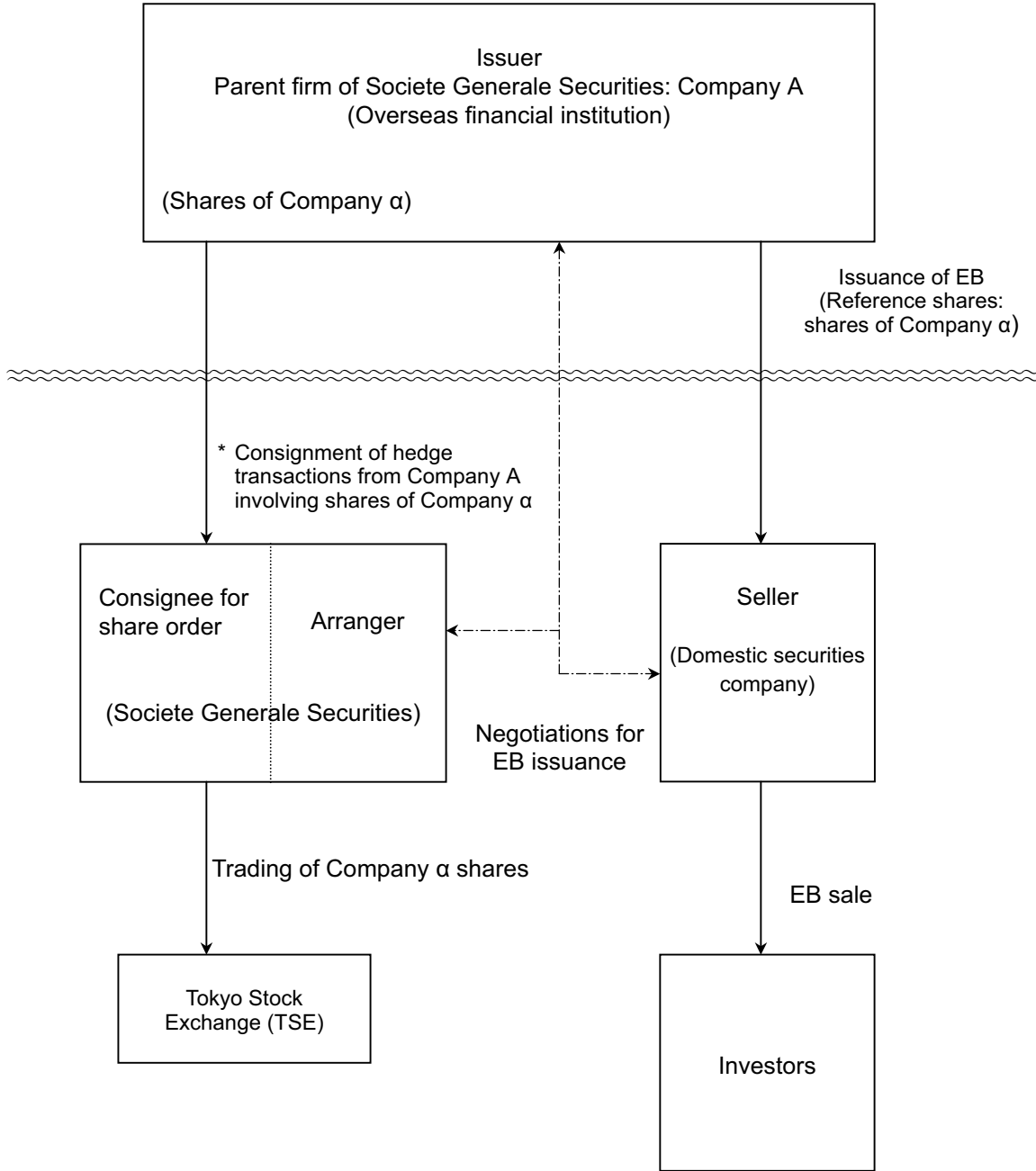


Date of Recommendation (Category)	Violations Subject to Recommendation	Administrative Disciplinary Measures
November 28, 2003 (Inspection)	<p>○ Act of making a series of securities transactions to create an artificial market that does not reflect the actual state of the market (Recommendation in which disciplinary measures were sought against a securities company)</p> <p>In connection to corporate bonds with a clause to exchange them for shares of a listed company other than the bond-issuing firm, or exchangeable bonds (hereinafter referred to as “EB”), a (then) trader at the Japanese equity derivatives department of Societe Generale Securities (North Pacific) Ltd. placed a series of large limit orders to sell the reference shares at ¥782, a lower price than the EB’s strike price (¥783). This created a situation in which the closing price of the reference shares would not equal or exceed the strike price unless all the orders were consummated during the last minute of trading for the day—from 14:58 until the day’s closing—on November 14, 2001, which was the valuation date when the EB redemption method, which determines whether payment is to be made in cash equal to the EB’s principal amount or by delivery of the reference shares, was to be decided upon the day’s closing price of the reference shares. This was intended to make the reference price lower than the strike price so that the EB would be redeemed by the delivery of the shares so as to enable Societe Generale Securities’ parent company to avoid risks that might have arisen in the event that the EBs were to be redeemed by cash payment from its status as a holder of the reference shares that had been held in preparation for the stock redemption. As a result, the price of the reference shares dropped from ¥783 in the immediate past to close at ¥781, making the EB redeemable by delivery of the shares. The parent company therefore succeeded in avoiding risks that might have arisen from its status as a holder of the reference shares.</p>	<p>Administrative disciplinary measures taken against the company</p> <p>Business suspension order</p> <ul style="list-style-type: none"> <li>• 10-day suspension of own-account stock trading business at the Tokyo branch</li> </ul> <p>Business improvement order</p> <ul style="list-style-type: none"> <li>• Improving and strengthening the in-house supervision of business operations, ensuring the observance of laws and rules by executives and other employees of the company, devising measures to avert future violations, and clarifying where the responsibility lies</li> <li>• Reporting the implementation of measures shown above in writing</li> </ul>

○ **Data on the recommendation issued to Societe Generale Securities (North Pacific) Ltd.**

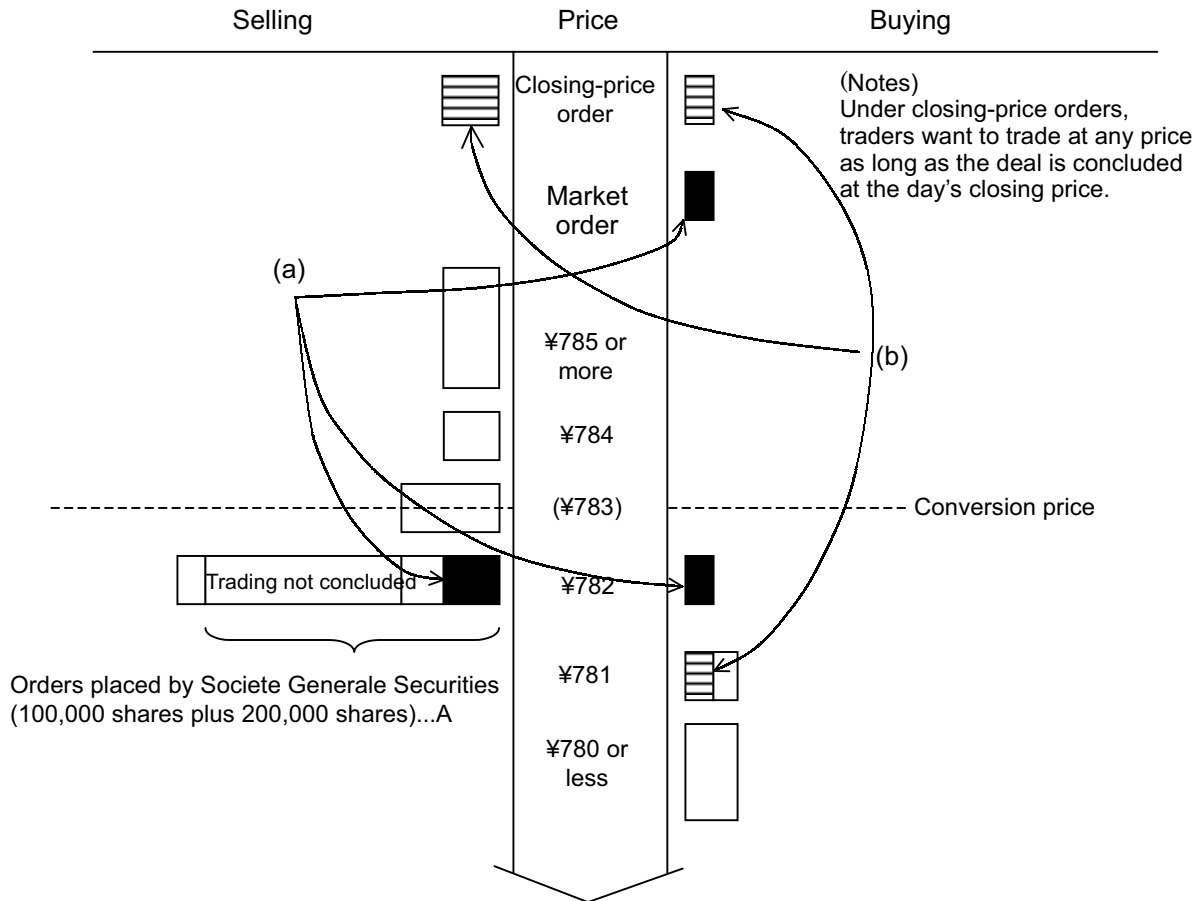
**1. Mechanism of the EB in the Current Case**



## 2. Outline of EB involved in this case

Reference shares:	Shares of Company $\alpha$
Issuer:	Parent firm of Societe Generale Securities (overseas financial institution)
Seller:	Domestic second-tier securities company
Issue amount:	Approximately ¥1 billion
Face value:	¥783,000
Conversion price:	¥783
Issue date:	June 20, 2001
Redemption date:	November 21, 2001
Coupon rates:	5.6% per annum
Date of EB redemption method determination:	November 14, 2001
Share price used to determine the redemption method:	The TSE closing price for the reference stock on the day for determining the method

### 3. Formation of an artificial market: outline



#### [Transaction Process]

- 1) Societe Generale Securities placed limit sell orders for 100,000 shares of the reference stock at ¥782, which was ¥1 yen lower than the conversion price, after the stock was traded at ¥783 at 14:58. The securities company also placed limit sell orders for 200,000 shares of the stock at the same ¥782 price.  
(A total of 300,000 shares were involved, as shown in A)
- 2) During this process, part of the 300,000 shares for which sell orders were placed, as shown above, drew market buy orders and limit buy orders at ¥782, as shown in (a), and deals were made at the contract price of ¥782. Toward the end of the day's trading, a situation emerged in which the closing price of the reference stock would not equal or exceed the conversion price of ¥783 unless all of the remaining sell orders (about 250,000 shares) were absorbed by buy orders.
- 3) As a result, the price of the reference stock ended at ¥781, which was ¥2 lower than the conversion price, as shown in (b), while deals were not made for most of the sell orders.