

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 98075 / August 8, 2023**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-21551**

**In the Matter of**

**SMBC Nikko Securities  
America, Inc.,**

**Respondent.**

**ORDER INSTITUTING ADMINISTRATIVE  
AND CEASE-AND-DESIST PROCEEDINGS,  
PURSUANT TO SECTIONS 15(b) AND 21C  
OF THE SECURITIES EXCHANGE ACT OF  
1934, MAKING FINDINGS, AND IMPOSING  
REMEDIAL SANCTIONS AND A CEASE-  
AND-DESIST ORDER**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”) against SMBC Nikko Securities America, Inc. (“Respondent” or “SMBC”).

**II.**

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (“Offer”) that the Commission has determined to accept. Respondent admits the facts set forth in Section III below, acknowledges that its conduct violated the federal securities laws, admits the Commission’s jurisdiction over it and the subject matter of these proceedings, and consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

**III.**

On the basis of this Order and Respondent’s Offer, the Commission finds<sup>1</sup> that

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<sup>1</sup> The findings herein are made pursuant to Respondent’s Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

## Summary

1. The federal securities laws impose recordkeeping requirements on broker-dealers to ensure that they responsibly discharge their crucial role in our markets. The Commission has long said that compliance with these requirements is essential to investor protection and the Commission's efforts to further its mandate of protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation.

2. These proceedings arise out of the widespread and longstanding failure of SMBC employees throughout the firm, including at senior levels, to adhere to certain of these essential requirements and the SMBC's own policies. Using their personal devices, these employees communicated both internally and externally by personal text messages, or other text messaging platforms such as WhatsApp and Signal ("off-channel communications").

3. From at least January 2019, SMBC employees sent and received off-channel communications that related to the business of the broker-dealer operated by SMBC. Respondent did not maintain or preserve the substantial majority of these written communications. Respondent's failure was firm-wide, and involved employees at all levels of authority. As a result, SMBC violated Section 17(a) of the Exchange Act and Rule 17a-4(b)(4) thereunder.

4. SMBC's supervisors, who were responsible for supervising junior employees, routinely communicated off-channel using their personal devices. In fact, managing directors across the firm and senior supervisors responsible for supervising junior employees themselves failed to comply with SMBC policies by communicating using non-firm approved methods on their personal devices about the SMBC's broker-dealer business.

5. SMBC's widespread failure to implement its policies and procedures that prohibit such communications led to its failure to reasonably supervise its employees within the meaning of Section 15(b)(4)(E) of the Exchange Act.

6. Commission staff uncovered SMBC's misconduct after commencing a risk-based initiative to investigate the use of off-channel and unpreserved communications at broker-dealers. SMBC has initiated a review of its recordkeeping failures and begun a program of remediation. As set forth in the Undertakings below, SMBC will retain an independent compliance consultant to review and assess the SMBC's remedial steps relating to its recordkeeping practices, policies and procedures, related supervisory practices, and employment actions.

## Respondent

7. SMBC is a Delaware corporation with its principal office in New York, New York and is registered with the Commission as a broker-dealer. It is an indirect subsidiary of Sumitomo Mitsui Banking Corporation Group, a global financial services firm registered and headquartered in Tokyo, Japan.

## **Recordkeeping Requirements under the Exchange Act**

8. Section 17(a)(1) of the Exchange Act authorizes the Commission to issue rules requiring broker-dealers to make and keep for prescribed periods, and furnish copies of, such records as necessary or appropriate in the public interest, for the protection of investors or otherwise in furtherance of the purposes of the Exchange Act.

9. The Commission adopted Rule 17a-4 pursuant to this authority. Rule 17a-4 specifies the manner and length of time that the records created in accordance with other Commission rules, and certain other records produced by broker-dealers, must be maintained and produced promptly to Commission representatives. The rules adopted under Section 17(a)(1) of the Exchange Act, including Rule 17a-4(b)(4), require that broker-dealers preserve in an easily accessible place originals of all communications received and copies of all communications sent relating to the firm's business as such. These rules impose minimum recordkeeping requirements that are based on standards a prudent broker-dealer should follow in the normal course of business.

10. The Commission previously has stated that these and other recordkeeping requirements "are an integral part of the investor protection function of the Commission, and other securities regulators, in that the preserved records are the primary means of monitoring compliance with applicable securities laws, including antifraud provisions and financial responsibility standards." Commission Guidance to Broker-Dealers on the Use of Electronic Storage Media under the Electronic Signatures in Global and National Commerce Act of 2000 with Respect to Rule 17a-4(f), 17 C.F.R. Part 241, Exchange Act Rel. No. 44238 (May 1, 2001).

## **SMBC's Policies and Procedures**

11. SMBC maintained certain policies and procedures designed to ensure the retention of business-related records, including electronic communications, in compliance with the relevant recordkeeping provisions.

12. SMBC employees were advised that the use of unapproved electronic communications methods, including on their personal devices, was not permitted, and they should not use personal email, chats or text messaging applications for business purposes, or forward work-related communications to their personal devices.

13. Messages sent through firm-approved communications methods were monitored, subject to review, and, when appropriate, archived. Messages sent through unapproved communications methods, such as WhatsApp, Signal, and other unapproved applications on personal devices, were not monitored, subject to review or archived.

14. SMBC's policies were designed to address supervisors' supervision of employees' training in the firm's communications policies and adherence to firm's books and recordkeeping requirements. Supervisory policies notified employees that electronic communications were subject to surveillance by SMBC. SMBC had procedures for all employees, including supervisors, requiring annual self-attestations of compliance.

15. SMBC, however, failed to implement a system of follow-up and review to determine that supervisors were reasonably following the SMBC's policies. While permitting employees to use approved communications methods, including on personal phones, for business communications, SMBC failed to implement sufficient monitoring to assure that its recordkeeping and communications policies were being followed.

### **SMBC's Recordkeeping Failures Across Its Brokerage Business**

16. In September 2021, the Commission staff commenced a risk-based initiative to investigate whether broker-dealers were properly retaining business-related messages sent and received on personal devices. SMBC cooperated with the investigation by voluntarily interviewing a sampling of senior and other broker-dealer personnel and gathering and reviewing messages found on the individuals' personal devices. These personnel included senior leadership, investment bankers, and debt and equity traders.

17. The Commission staff's investigation uncovered pervasive off-channel communications at all seniority levels of SMBC's broker-dealer. The investigation determined that nearly all broker-dealer personnel sampled had engaged in at least some level of off-channel communications. Overall, these personnel sent and received numerous off-channel communications, involving other SMBC personnel, SMBC's broker-dealer customers, and other participants in the securities industry. Within SMBC, significant numbers of managing directors, trading desk heads, and industry group heads participated in off-channel communications.

18. From at least January 2019, SMBC personnel sent and received off-channel messages that concerned the broker-dealer's businesses.

19. For example, during the relevant period, a senior leader exchanged numerous off-channel business-related messages with SMBC colleagues, customers, and personnel at other financial services firms. Within SMBC, the senior leader communicated by text message with employees under his supervision.

20. In addition, a group head in a U.S. leadership role had off-channel communications with at least 29 other SMBC employees during the period of review, including at least two employees he supervised. He also communicated off-channel with at least three individuals who worked at other broker-dealers about SMBC's broker-dealer business.

21. Similarly, a managing director and head of trading communicated by text message and WhatsApp with at least 14 other SMBC employees, including at least five whom he supervised.

22. Last, a managing director and head of one of SMBC's trading desks exchanged text and WhatsApp messages with at least 27 other SMBC employees, including three whom he supervised. This managing director also had off-channel communications with at least four individuals who worked at other broker-dealers.

### **SMBC's Violations and Failure to Supervise**

23. As a result of the conduct described above, from at least January 2019 through the date of this Order, Respondent willfully<sup>2</sup> violated Section 17(a) of the Exchange Act and Rule 17a-4(b)(4) thereunder, which require broker-dealers to preserve for at least three years originals of all communications received and copies of all communications sent relating to its business as such.

24. As a result of the conduct described above, Respondent failed reasonably to supervise its employees with a view to preventing or detecting certain of its employees' aiding and abetting violations of Section 17(a) of the Exchange Act and Rule 17a-4(b)(4) thereunder, within the meaning of Section 15(b)(4)(E) of the Exchange Act.

### **SMBC's Remedial Efforts**

25. In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by SMBC and cooperation afforded the Commission staff. During the relevant period, SMBC revised its policies and procedures, increased training, enhanced surveillance efforts, and implemented technological improvements, in an effort to address the risk of staff engaging in off-channel communications. Further, it disciplined staff it found to have violated its policies regarding off-channel communications.

### **Undertakings**

26. Prior to this action, SMBC enhanced its policies and procedures, and increased training concerning the use of approved communications methods, including on personal devices. In addition, Respondent has undertaken to:

27. Independent Compliance Consultant.

a. SMBC shall retain, within thirty (30) days of the entry of this Order, the services of an independent compliance consultant ("Compliance Consultant") that is not unacceptable to the Commission staff. Prior to the entry of this Order, SMBC retained the services of a consultant to address the issues described in this Order. The Compliance Consultant may be the same consultant previously engaged by SMBC. The Compliance Consultant's compensation and expenses shall be borne exclusively by SMBC.

b. SMBC will oversee the work of the Compliance Consultant.

c. SMBC shall provide to the Commission staff, within sixty (60) days of the entry of this Order, a copy of the engagement letter detailing the Compliance Consultant's responsibilities, which shall include a comprehensive compliance review as

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<sup>2</sup> "Willfully," for purposes of imposing relief under Section 15(b) of the Exchange Act "means no more than that the person charged with the duty knows what he is doing." *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)).

described below. SMBC shall require that, within ninety (90) days of the date of the engagement letter, the Compliance Consultant conduct:

i. A comprehensive review of SMBC's supervisory, compliance, and other policies and procedures designed to ensure that SMBC's electronic communications, including those found on personal electronic devices, including without limitation, cellular phones ("Personal Devices"), are preserved in accordance with the requirements of the federal securities laws.

ii. A comprehensive review of training conducted by SMBC to ensure personnel are complying with the requirements regarding the preservation of electronic communications, including those found on Personal Devices, in accordance with the requirements of the federal securities laws, including by ensuring that SMBC personnel certify in writing on a quarterly basis that they are complying with preservation requirements.

iii. An assessment of the surveillance program measures implemented by SMBC to ensure compliance, on an ongoing basis, with the requirements found in the federal securities laws to preserve electronic communications, including those found on Personal Devices.

iv. An assessment of the technological solutions that SMBC has begun implementing to meet the record retention requirements of the federal securities laws, including an assessment of the likelihood that SMBC personnel will use the technological solutions going forward and a review of the measures employed by SMBC to track employee usage of new technological solutions.

v. An assessment of the measures used by the SMBC to prevent the use of unauthorized communications methods for business communications by employees. This assessment should include, but not be limited to, a review of SMBC's policies and procedures to ascertain if they provide for any significant technology and/or behavioral restrictions that help prevent the risk of the use of unapproved communications methods on Personal Devices (e.g., trading floor restrictions).

vi. A review of SMBC's electronic communications surveillance routines to ensure that electronic communications through approved communications methods found on Personal Devices are incorporated into SMBC's overall communications surveillance program.

vii. A comprehensive review of the framework adopted by SMBC to address instances of non-compliance by SMBC employees with SMBC's policies and procedures concerning the use of Personal Devices to communicate about SMBC business in the past. This review shall include a survey of how SMBC determined which employees failed to comply with SMBC policies and procedures, the corrective action carried out, an evaluation of who violated

policies and why, what penalties were imposed, and whether penalties were handed out consistently across business lines and seniority levels.

d. SMBC shall require that, within forty-five (45) days after completion of the review set forth in sub-paragraphs c.i. through c.vii. above, the Compliance Consultant shall submit a detailed written report of its findings to SMBC and to the Commission staff (the "Report"). SMBC shall require that the Report include a description of the review performed, the names of the individuals who performed the review, the conclusions reached, the Compliance Consultant's recommendations for changes in or improvements to SMBC's policies and procedures, and a summary of the plan for implementing the recommended changes in or improvements to SMBC's policies and procedures.

e. SMBC shall adopt all recommendations contained in the Report within ninety (90) days of the date of the Report; provided, however, that within forty-five (45) days after the date of Report, SMBC shall advise the Compliance Consultant and the Commission staff in writing of any recommendations that SMBC considers to be unduly burdensome, impractical, or inappropriate. With respect to any recommendation that SMBC considers unduly burdensome, impractical, or inappropriate, SMBC need not adopt such recommendation at that time, but shall propose in writing an alternative policy, procedure, or disclosure designed to achieve the same objective or purpose.

f. As to any recommendation concerning SMBC's policies or procedures on which SMBC and the Compliance Consultant do not agree, SMBC and the Compliance Consultant shall attempt in good faith to reach an agreement within sixty (60) days after the date of the Report. Within fifteen (15) days after the conclusion of the discussion and evaluation by SMBC and the Compliance Consultant, SMBC shall require that the Compliance Consultant inform SMBC and the Commission staff in writing of the Compliance Consultant's final determination concerning any recommendation that SMBC considers to be unduly burdensome, impractical, or inappropriate. SMBC shall abide by the determinations of the Compliance Consultant and, within sixty (60) days after final agreement between SMBC and the Compliance Consultant or final determination by the Compliance Consultant, whichever occurs first, SMBC shall adopt and implement all of the recommendations that the Compliance Consultant deems appropriate.

g. SMBC shall cooperate fully with the Compliance Consultant and shall provide the Compliance Consultant with access to such of SMBC's files, books, records, and personnel as are reasonably requested by the Compliance Consultant for review.

h. SMBC shall not have the authority to terminate the Compliance Consultant or substitute another compliance consultant for the initial Compliance Consultant, without the prior written approval of the Commission staff. SMBC shall compensate the Compliance Consultant and persons engaged to assist the Compliance Consultant for services rendered under this Order at their reasonable and customary rates.

i. For the period of engagement and for a period of two years from completion of the engagement, SMBC shall not (i) retain the Compliance Consultant for any other professional services outside of the services described in this Order; (ii) enter into any other professional relationship with the Compliance Consultant, including any employment, consultant, attorney-client, auditing or other professional relationship; or (iii) enter, without prior written consent of the Commission staff, into any such professional relationship with any of the Compliance Consultant's present or former affiliates, employers, directors, officers, employees, or agents acting in their capacity as such.

j. The Report by the Compliance Consultant will likely include confidential financial, proprietary, competitive business or commercial information. Public disclosure of the Report could discourage cooperation, impede pending or potential government investigations or undermine the objectives of the reporting requirement. For these reasons, among others, the Report and the contents thereof are intended to remain and shall remain non-public, except (1) pursuant to court order, (2) as agreed to by the parties in writing, (3) to the extent that the Commission determines in its sole discretion that disclosure would be in furtherance of the Commission's discharge of its duties and responsibilities, or (4) is otherwise required by law.

28. One-Year Evaluation. SMBC shall require the Compliance Consultant to assess SMBC's program for the preservation, as required under the federal securities laws, of electronic communications, including those found on Personal Devices, commencing one year after submitting the report required by Paragraph 27.d above. SMBC shall require this review to evaluate SMBC's progress in the areas described in Paragraph 27.c.i-vii above. After this review, SMBC shall require the Compliance Consultant to submit a report (the "One Year Report") to SMBC and the Commission staff and shall ensure that the One Year Report includes an updated assessment of SMBC's policies and procedures with regard to the preservation of electronic communications (including those found on Personal Devices), training, surveillance programs, and technological solutions implemented in the prior year period.

29. Reporting Discipline Imposed. For two years following the entry of this Order, SMBC shall notify the Commission staff as follows upon the imposition of any discipline imposed by SMBC, including, but not limited to, written warnings, loss of any pay, bonus, or incentive compensation, or the termination of employment, with respect to any employee found to have violated SMBC's policies and procedures concerning the preservation of electronic communications, including those found on Personal Devices: at least 48 hours before the filing of a Form U-5, or within ten (10) days of the imposition of other discipline.

30. Internal Audit. In addition to the Compliance Consultant's review and issuance of the One Year Report, SMBC will also have its Internal Audit function conduct a separate audit(s) to assess SMBC's progress in the areas described in Paragraph 27.c.i-vii above. After completion of this audit(s), SMBC shall ensure that Internal Audit submits a report to SMBC and to the Commission staff.

31. Recordkeeping. SMBC shall preserve, for a period of not less than six (6) years from the end of the fiscal year last used, the first two (2) years in an easily accessible place, any record of compliance with these undertakings.



32. Deadlines. For good cause shown, the Commission staff may extend any of the procedural dates relating to the undertakings. Deadlines for procedural dates shall be counted in calendar days, except that if the last day falls on a weekend or federal holiday, the next business day shall be considered to be the last day.

33. Certification. SMBC shall certify, in writing, compliance with the undertakings set forth above. The certification shall identify the undertakings, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The Commission staff may make reasonable requests for further evidence of compliance, and Respondent agrees to provide such evidence. The certification and supporting material shall be submitted to Alison R. Levine, Assistant Regional Director, Division of Enforcement, New York Regional Office, Securities and Exchange Commission, 100 Pearl Street, Suite 20-100, New York, NY, 10004-2616, or such other person as the Commission staff may request, with a copy to the Office of Chief Counsel of the Enforcement Division, no later than sixty (60) days from the date of the completion of the undertakings.

#### IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent's Offer.

Accordingly, pursuant to Sections 15(b) and 21C of the Exchange Act, it is hereby ORDERED that:

- A. Respondent cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Exchange Act and Rule 17a-4 thereunder.
- B. Respondent is censured.
- C. Respondent shall comply with the undertakings enumerated in paragraphs 26 to 33 above.
- D. Respondent shall, within 14 days of the entry of this Order, pay a civil money penalty in the amount of \$9,000,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

Payment must be made in one of the following ways:

- (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or

- (3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center  
Accounts Receivable Branch  
HQ Bldg., Room 181, AMZ-341  
6500 South MacArthur Boulevard  
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying SMBC as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Thomas P. Smith, Jr., Associate Regional Director, Division of Enforcement, Securities and Exchange Commission, 100 Pearl Street, Suite 20-100, New York, New York 10004-2616.

E. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Vanessa A. Countryman  
Secretary