Date of recommendation	Violations subject to recommendation	Administrative disciplinary action
June 24, 2003 (inspection)	❍Act of soliciting business from a customer with a promise to provide special benefits to the customer Credit Agricole Indosuez Securities (Japan) Ltd. on March 19, 2002 solicited securities transactions from a selected corporate customer by promising, in return for continued transactions in the future, to waive the customer's overdue obligation to repay the cost arising from the customer's failure to deliver the shares (referred to often as "fail cost") that the customer had sold through placing orders with the securities company.	Administrative disciplinary measures taken against the company Business suspension order • The Tokyo branch was ordered to suspend stock trading on consignment for two days Business improvement order • Improving and strengthening in-house supervision of business operations, ensuring that employees, including those in managerial positions, observe laws and rules, and devising specific plans to prevent violation recurrence. Clarification of where the responsibility lay • Reporting of specific preventive measures being worked out to the SESC, in writing

• Data on recommendation issued to Credit Agricole Indosuez Securities (Japan) Ltd.

Supplementary Explanation

Under the case for which the recommendation was issued to Credit Agricole Indosuez Securities (Japan) Ltd., it was confirmed that the securities company promised to waive, in order to continue business with the customer in the future and retroactive to the initial transactions, a large amount of a customer's overdue obligation to repay the cost arising from the customer's failure to deliver the shares (referred to often as "fail cost") that the customer had sold through placing orders with the securities company.

1. If a customer fails to deliver the shares it sold through the Tokyo branch of Credit Agricole Indosuez by the settlement day, the branch is supposed to deliver the shares to the stock exchange by borrowing such shares. At the time of starting business with the customer, the Tokyo branch, as it did with other customers, signed a contract with the customer in question that obligated the customer to repay the "fail cost," which is the cost arising from the branch's having had to borrow the shares following the customer's failure to deliver the shares to the stock exchange.

2. In transactions between the Tokyo branch and the customer, "fail cost" has arisen continuously since January 2001. The Tokyo branch urged the customer to repay the overdue obligation but the customer failed to do so, leading the Tokyo branch to repay the "fail cost" on behalf of the customer. As a result, the branch accumulated credit claims against the customer for its repayment of the "fail cost" (About \1.5 million).

3. Under these circumstances, in March 2002, the customer failed to deliver several billions of yen

worth of shares it had sold via the Tokyo branch, which left the customer with the obligation to repay a "fail cost" of about \2.7 million. The Tokyo branch asked the customer to repay the credit arising from the cost, but received notification from the customer that it would terminate business with the branch if it would have to put up the "fail cost" on its own. An overseas business group within the Tokyo branch studied the notification and finally decided to waive the \2.7 million claim and other accumulated claims on the customer, retroactive to their initial business transactions, in order to ensure that business with the customer would continue.

4. The credit of \2.7 million arising from the "fail cost" as mentioned in 3. far exceeded the \150,000 in commission charges the Tokyo branch was entitled to in the transaction in question. The "fail cost" arose in 53 business transactions during 14 months between January 2001, when the first such cost arose, and March 2002, when the \2.7 million cost was reported. "Fail cost" surpassed commission charges in 37 of the 53 cases.