Nomura Securities International Agrees to Pay $35 Million Penalty Stemming from Its Participation in Securities Fraud Scheme

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For Immediate Release
U.S. Attorney's Office, District of Connecticut

Vanessa Roberts Avery, United States Attorney for the District of Connecticut, today announced that Nomura Securities International ("NSI"), a U.S.-based broker-dealer subsidiary of Japanese financial services firm Nomura Holdings, and the U.S. Attorney's Office have entered into a non-prosecution agreement relating to NSI's fraudulent trading of Residential Mortgage Backed Securities ("RMBS"). As part of this agreement, NSI will pay a monetary penalty of $35 million and pay restitution to victim customers, which include firms affiliated with recipients of federal bailout funds through the Troubled Asset Relief Program and firms investing as fiduciaries on behalf of pension funds, charitable and educational endowments, insurance companies, and others.

The government's investigation revealed that NSI – principally from its trading floor in New York City – perpetrated a scheme from 2009 to 2013 to defraud its customers in RMBS trades. The purpose and effect of NSI's fraud was to increase its profits on RMBS trades at the expense of victim customers, including victim customers based in Connecticut. NSI conducted this scheme by, through, and with its employees, who acted with the knowledge, encouragement, and participation of NSI supervisors, including those tasked with compliance responsibilities.

NSI conducted its scheme by misrepresenting material facts to deceive and cheat its customers in trades. For instance, in certain transactions, NSI traders lied to the buyer about the seller's asking price (or vice versa), keeping the difference between the price paid by the buyer and the price paid to the seller for NSI. In other transactions, NSI traders misrepresented to the buyer that bonds held in NSI's inventory were being offered for sale by a fictitious third-party seller, which allowed NSI to charge the buyer an extra, unearned commission. NSI supervisors instructed its RMBS traders in, and caused them to use, these fraudulent trading practices. NSI, with full knowledge and participation of its supervisors, lied to victims who detected or suspected that they had been the victims of fraud. NSI concealed its fraudulent conduct from its customers, and from its own employees who were not participants in the scheme, in order to prevent or delay discovery.

Under the terms of the non-prosecution agreement, NSI agreed to pay a penalty of $35 million and make restitution to victims of $807,717.68. NSI previously paid $20,125,614.59 in remediation to victims as part of its settlement with the Securities and Exchange Commission.

This resolution takes into account NSI's extensive cooperation, acceptance of responsibility for its and its employees' criminal conduct, remediation efforts, including its discipline and/or termination of employees and its commitment to make complete restitution to all impacted customers, enhanced compliance program, and agreement to continue to cooperate with law enforcement. The U.S. Attorney's Office did not require NSI to retain an independent consultant to assess and improve NSI's compliance and ethics program because NSI has already taken steps to reasonably prevent and detect further fraud, and because of certain structural changes in the secondary market for RMBS that would make repetition of the conduct less likely.

The agreement announced today addresses only the corporate criminal liability of NSI and not criminal charges for any individual. Several former NSI employees have been charged in connection with NSI trading activities.

This matter was investigated by the Special Inspector General for the Troubled Asset Relief Program, the Department of Labor-Office of Inspector General, the Federal Bureau of Investigation, and the Federal Housing Finance Agency-Office of Inspector General. The case is being prosecuted by Assistant U.S. Attorneys David Novick, Heather Cherry, and Jonathan Francis.

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