

## **Measures to prevent further incidents based on administrative actions**

### **I. Measures to prevent further incidents based on the business improvement order issued by Japan's Financial Services Agency**

#### **1. Findings from the business improvement order**

Mizuho Financial Group and Mizuho Bank were recently issued a business improvement order by Japan's Financial Services Agency (JFSA). Mizuho Financial Group and Mizuho Bank take the business improvement order extremely seriously, and we will work together as an organization to further expand and strengthen our measures to prevent further incidents.

The business improvement order recently issued by the JFSA lists the items below as direct causes of the recent series of IT system failures at Mizuho Bank.

- Insufficient verifications to ensure quality for development and system failure responses
- Failure to establish a maintenance management framework for stable operations of Mizuho Bank's new core IT system (MINORI), including inadequate management of external contractors, resulting in the failure to correct issues in maintenance and operations
- Insufficient verifications through drills and training in relation to the crisis response frameworks

The business improvement order also lists the items below as factors behind the direct causes.

- Insufficient awareness and understanding of on-site conditions at IT locations by Mizuho Financial Group and Mizuho Bank executives resulted in the mistaken impression of stable MINORI operations. MINORI was advanced from the development phase to the maintenance and operations phase without adequately examining the requirements for stable system operations (including necessary measures to minimize the impact of possible emergencies) due to an overestimation of MINORI's ability to limit the impact of system failures to localized areas. Restructuring was also

carried out, including reallocating personnel required for MINORI maintenance and operations, as well expense reductions for system maintenance.

- With the mistaken impression of stable MINORI operations and insufficient awareness of the IT system risk management framework, Mizuho Bank executive management proceeded to reallocate personnel and entrust vendors with operations.
- The above factors resulted in greatly weakened MINORI and other IT system operations.

In addition, we also received the four findings below as issues in governance concerning IT systems with much of it being fundamentally connected to past IT system failures.

- An underestimation of the risks of and required technical specialization related to IT systems
- Insufficient attention given to on-site conditions at IT locations
- Lack of awareness toward impacts on customers and insufficient attention given to on-site conditions at front-line offices
- A basic approach in which employees do not say what should be said, and only do as told

We at Mizuho Financial Group and Mizuho Bank position measures to improve upon these issues as extremely crucial to reliably fulfill our responsibility in maintaining societal infrastructure, toward which we will work together as an organization.

## **2. Measures to prevent further incidents**

### **(1) Our initiatives thus far**

Both Mizuho Financial Group and Mizuho Bank experienced significant system failures in 2002 and 2011. To address this, in July 2019 we completed our migration to a new core banking system (MINORI), and we have also been

pursuing initiatives to establish frameworks for emergency and crisis response from the standpoints of customer service and crisis management.

Even so, between February 28 and March 12 we experienced four system failures. The System Failure Special Investigative Committee we established on March 17 identified the causes of the system failures as 1) issues in organizational ability to respond to crisis situations, 2) issues in IT system controls, 3) issues in understanding customers' viewpoints, and 4) issues in the corporate culture. In light of these findings, Mizuho Financial Group and Mizuho Bank formulated measures to prevent further incidents, which were announced on June 15.

Our basic approach is aimed at improving our multilayered system failure response capabilities. From an IT systems perspective, we are endeavoring to put in place a framework suited to MINORI's unique features by improving our ability to respond to any deviations in MINORI's ordinary operations, by visualizing our talent portfolio, and by enhancing organizational control. From a customer relations and crisis management perspective, we are endeavoring to further foster awareness and action that gives top consideration to impacts on customers both under business-as-usual and during incidents, and in conjunction with this we are also endeavoring to strengthen our frameworks. To achieve this, we are strengthening organizational responses to understand and incorporate customers' responses in our measures and establishing and reinforcing frameworks focused on impacts on customers and settlements. At the same time, in order to ensure the effectiveness of these multilayered system response capabilities, we are striving to continuously enhance our people and organization as part of solving fundamental organizational issues that also affect IT systems, customer relations, and crisis management. This will enable us to step forward together with our customers and society.

While pursuing these initiatives, we are also accounting for the four system failures that occurred between August 20 and September 30 and moving forward with a review to make the measures for improvement from June more robust.

## **(2) Approach to formulation, implementation, and verification of measures to prevent further incidents, based on the business improvement order**

At Mizuho Financial Group and Mizuho Bank, we are treating the business improvement order we received with the utmost seriousness. Our executive management is leading the way, and we are listening to the views of colleagues and stakeholders. We will continue to work tirelessly as a unified organization to formulate, implement, and verify measures to prevent further incidents in response to the factors that caused the system failures.

Specifically, we will conduct thorough inspections and reviews to confirm the effectiveness, continuity, and completeness of our current measures. By undertaking the following, we will develop a robust organizational framework that will prevent further significant system failures in the future and minimize impacts on customers.

- Formulate and implement measures that will allow both for preventing system failures with a significant impact on customers and for minimizing impacts on customers in the event a system failure occurs.
- Assess the on-site conditions at IT locations and develop IT governance that allows for appropriate decision-making and evaluation in regard to measures to prevent further incidents.
- In terms of measures to prevent further incidents already formulated, ensure their dissemination and adoption, respond to changes in the business environment as appropriate, and develop a sustainable framework.

## **(3) Recognition of issues and direction of initiatives based on root causes**

In regard to IT systems, we will enhance risk management in line with the systems' unique features, improve expertise, assess on-site conditions at IT locations, and reflect these in executive management's allocation of resources. From this standpoint, we will develop a framework for maintenance and operation suited to MINORI's unique features and actual on-site conditions at IT locations. In conjunction with this, we will assess the status of operations at IT locations in order to understand both operational issues and latent system risks. We will

further develop a framework to appropriately reflect these factors into executive management's allocation of corporate resources.

Specifically, we will undertake necessary inspections to ensure MINORI does not deviate from normal operations and to ensure the foundational infrastructure developed with MINORI's adoption operates stably. Additionally, we will clarify necessary maintenance and operations and allocate appropriate resources in line with actual conditions on-site.

In preparation for potential system failures, we will enhance our ability to respond to failures in line with MINORI's unique features and enhance our system recovery management.

In terms of customer relations and crisis management, we will continually put customers first, understand the actual conditions at frontline offices, and integrating these approaches into our services and measures. From this standpoint, we will further foster awareness and behavior that gives top consideration to impact on customers while observing laws and regulations both under business-as-usual and during incidents. In this way, we will establish an organizational framework that continually puts customers first.

Specifically, in Head Office as well, we will maintain close ties with frontline offices in line with specific operations and develop a framework to reflect customers' and frontline offices' views into operations and services on an ongoing basis. In addition, through coordination between IT system divisions, user divisions, and crisis management divisions, we will reinforce our early warning indicator management and enhance our ability to respond to failures.

In terms of continuously enhancing our people and organization, we will establish an organization where people can say what needs to be said and improve our capacity for all members of the organization to think, act, and deliver. From this standpoint, we will further improve our ability to act as a unified organization without being negatively restricted by rules or areas of responsibility.

Specifically, we will develop and employ experts with wide-ranging perspectives, review our methods of internal communication, and establish multifaceted flat communication between Head Office and the frontlines.

In addition, from the standpoint of establishing and enhancing a corporate management (governance) framework that will ensure stable operations in IT systems, we will effectively communicate the purpose of structural reforms and improve processes for allocating corporate resources. The supervisory line will undertake in-depth assessments of the actual status of the business execution line's initiatives and further demonstrate its supervisory functions.

Also, across all the initiatives described above, we will utilize outside viewpoints and expert insights in formulation and evaluation of measures to secure their effectiveness and comprehensiveness. We will also secure the continuity of these measures by establishing each initiative process as a specific framework.

## **II. Measures to prevent further incidents based on the corrective action order issued by Japan's Ministry of Finance**

### **1. Findings from the corrective action order**

Recently, Mizuho Bank was issued a corrective action order by Japan's Ministry of Finance. The order relates to the confirmation obligation required of banks in accordance to Article 17 of Japan's with Article 17 of Japan's Foreign Exchange and Foreign Trade Act. Mizuho Bank and the management company Mizuho Financial Group take the corrective action order extremely seriously, and we will work together as an organization to further expand and strengthen our measures to prevent further incidents.

The corrective action order recently issued by Japan's Ministry of Finance lists the four issues below.

- Insufficient knowledge of all employees regarding foreign exchange laws and regulations

- Insufficient communication between relevant departments during crisis responses
- Problems with confirmation obligation practices during normal times in addition to insufficient communication and collaboration between relevant departments
- Vulnerabilities in the IT system management framework targeting foreign exchange legal compliance

We take each finding of the corrective action order very seriously, and view them as necessary in strengthening our approach to compliance in relation to all foreign exchange laws and regulations, including thorough performance of the confirmation obligation required of banks by Japan's Foreign Exchange and Foreign Trade Act. As these findings come at a time when a broader perspective on legal compliance is demanded on a global scale, we position them as company-wide issues toward which we will endeavor to improve.

## **2. Measures to prevent further incidents**

Aiming to improve the awareness and knowledge of all employees regarding foreign exchange laws and regulations, in addition to regularly conducting appropriate training for all employees based on their specific roles and responsibilities, we will establish a new specialist team on foreign exchange laws and regulations within the Compliance Group to collect information on, analyze, and thoroughly implement laws and regulations.

In terms of improving communication between relevant departments both during times of crisis response and during normal times, we will build a framework in which appropriate considerations and decisions for legal compliance can be made in either situation. To achieve this, we will enhance our meeting formats and clarify the division of responsibilities in view of legal compliance, and work to develop and strengthen a framework for collaboration between relevant departments.

In strengthening the IT system management framework targeting foreign exchange legal compliance, we will work to ensure stable operations through collaborations between user and IT system divisions to review and develop IT

system specifications. We will also aim to expand and improve our business contingency plan.

Beyond the above-written measures, in view of reassessing the causes behind the IT system failures and appropriately restructuring internal management systems in relation to foreign exchange laws and regulations, we are considering measures to further strengthen our organizational response. These include establishing new committees at the senior management level, further clarifying roles and responsibilities between relevant departments, strengthening internal controls and monitoring, and medium- to long-term personnel development.

### **III. Clarifying senior management responsibility**

As a financial institution bearing responsibility for maintaining societal infrastructure, we at Mizuho Bank and Mizuho Financial Group sincerely regret and deeply apologize for the inconvenience and concern caused to our customers and related parties by allowing multiple system failures to occur in a short period of time, as well as by failing to sufficiently perform our confirmation obligation in accordance with Japan's Foreign Exchange and Foreign Trade Act.

The senior management of both Mizuho Financial Group and Mizuho Bank take very seriously the feedback received in relation to the situation caused by the series of system failures, as well the feedback related to the causes, including elements left out of the measures taken for past IT system failures, as well as our failure to appropriately respond to changes in the business environment. In addition to clarifying the senior management's responsibility, as laid out in the attachment, we will establish a new framework from which we will seek the opinions of employees and stakeholders and work with our employees to solve these issues.

### **IV. Conclusion**

We at Mizuho Financial Group and Mizuho Bank take the administrative actions issued by Japan's Financial Services Agency and Japan's Ministry of Finance

very seriously. In order to prevent further incidents and ensure the reliability of our services for customers, all group employees will unite in formulating and implementing our business improvement plan and measures to prevent further incidents based on the business improvement order.