

**Comprehensive Guidelines for Supervision of Financial
Instruments Business Operators, etc.
(Supplementary Guidelines)
Guidelines for Investment Management-Related Service
Entrusted Business Operators**

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Financial Services Agency

Comprehensive Guidelines for Supervision of Financial Instruments Business
Operators, etc.
(Supplementary Guidelines)
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Operators

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I. Basic Concept

I-1 Basic Concept for Supervision of Investment Management-Related Service Entrusted Business Operators

The Investment Management-Related Service (meaning the Investment Management-Related Service prescribed in Article 2(43) of the Financial Instruments and Exchange Act (referred to below as the "FIEA"); the same applies below) refers to the service related to the calculation of the appraised value of the property subject to investment or the service related to guidance for ensuring compliance with laws and regulations, etc. that is conducted in relation to the Investment Management Business, etc. (meaning the Investment Management Business (meaning the Investment Management Business defined in Article 28(4) of the FIEA), the Specially Permitted Services for Qualified Institutional Investors, etc. (meaning the Specially Permitted Services for Qualified Institutional Investors, etc. defined in Article 63(2) of the FIEA, and limited to such service in which the act set forth in paragraph (1)(ii) of that Article is conducted) or the Specially Permitted Services for Foreign Investors, etc. (meaning the Specially Permitted Services for Foreign Investors, etc. defined in Article 63-8(1) of the FIEA, and limited to such service in which the act set forth in item (i) of that paragraph is conducted); the same applies below). As one of the factors that have hindered new entries into the Investment Management Business in Japan, some have pointed out the heavy burden imposed on business operators, who are required to develop a framework for satisfying the requirements for registration.

The voluntary registration system for the Investment Management-Related Service Entrusted Business makes persons engaging in the Investment Management Business, etc. (referred to below as "Investment Management Business Operators, etc.") eligible for the relaxation of registration requirements in terms of their personnel structure if they outsource the Investment Management-Related Service to Investment Management-Related Service Entrusted Business Operators (meaning the Investment Management-Related Service Entrusted Business Operators prescribed in Article 2(45) of the FIEA; the same applies below). However, as a premise, the quality of the Investment Management-Related Service Entrusted Business Operators to whom the Investment Management-Related Service is outsourced must be ensured.

The purpose of the supervision of Investment Management-Related Service Entrusted Business Operators is to secure their appropriate business operations and have them fulfil their functions appropriately, thereby further enhancing the Investment Management Business in Japan, in order to ensure the premise for the voluntary registration system and the relaxation of the registration requirements regarding a personnel structure for Investment Management-Related Service Entrusted Business Operators.

It is therefore important for supervisory bureaus to require Investment Management-Related

Service Entrusted Business Operators to fully comply with legal and regulatory requirements, such as the development of an appropriate structure/system for operational control to perform the Investment Management-Related Service Entrusted Business in a fair and appropriate manner, by keeping up to date on the status of those business operators' business operations via periodic hearing interviews, etc. and cumulating/analyzing various information provided by them to facilitate their voluntary actions for ensuring the appropriateness of business operations in a timely manner.

"Section I-1 Basic Concept for Supervision of Financial Instruments Business Operators, etc." of the "Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc." (hereinafter referred to as the "Comprehensive Guidelines") should also be referred to for the basic concept relating to the supervision of Investment Management-Related Service Entrusted Business Operators.

I-2 Purpose of Establishment of the Guidelines for Supervision

In order to enable the Japanese economy to achieve sustainable development, it is important to accelerate a shift of funds "from savings to investment," which means a shift in emphasis from indirect financing to direct financing and market-based indirect financing. To promote the shift, it is essential that financial authorities design appropriate institutional frameworks and properly motivate Investment Management-Related Service Entrusted Business Operators, who play an important role in the performance of business operations of Investment Management Business Operators, etc., to strengthen their internal control while bearing in mind their mission to provide high-quality Investment Management-Related Service to Investment Management Business Operators, etc., who are the outsourcer.

In order to conduct daily supervisory processes under these circumstances, we decided to work out concepts concerning supervision, supervisory viewpoints and methods of supervision, etc.

The Guidelines were compiled with due consideration of the actual state of Investment Management-Related Service Entrusted Business Operators so as to be applied to various cases, and the requirements of the supervisory evaluation points specified in the Guidelines will not be uniformly applied to all Investment Management-Related Service Entrusted Business Operators.

Accordingly, when applying the Guidelines, it is necessary to bear in mind that even if an Investment Management-Related Service Entrusted Business Operator does not literally meet the requirements of all evaluation points, the case may not be judged inappropriate insofar as there is no problem from the viewpoint of protecting public interests and investors; it is necessary to avoid applying the Guidelines in a mechanical and uniform fashion. On the other hand, it should also be borne in mind that even if an Investment Management-Related Service Entrusted Business Operator formally fulfills all the functions concerning evaluation points, the case could be deemed to be inappropriate from the viewpoint of protecting public interests and investors.

II. Points of Attention in the Conduct of Administrative Processes Regarding the Supervision of Investment Management-Related Service Entrusted Business Operators

The provisions in "II. Points of Attention in the Conduct of Administrative Processes Regarding the Supervision of Financial Instruments Business Operators, etc." of the Comprehensive Guidelines are to apply mutatis mutandis for points of attention in administrative processes for the supervision of Investment Management-Related Service Entrusted Business Operators.

III. Supervisory Evaluation Points and Various Administrative Procedures

III-1 Governance

For Investment Management-Related Service Entrusted Business Operators to appropriately fulfil their functions in financial and capital markets, it is important that they themselves endeavor to develop the necessary control environment for legal and regulatory compliance and operate business, while recognizing the need to provide the Investment Management-Related Service with a certain level of quality.

Therefore, in conducting daily supervisory administrative processes, it is necessary to examine what the desirable status of governance is for an Investment Management-Related Service Entrusted Business Operator and take supervisory actions, from the viewpoint of whether the management team's checking of the execution of its business and the monitoring and control of the management team are functioning effectively.

Provisions of "III-1 Governance (General)" and "IV-1-1 Officers of Financial Instruments Business Operators" of the Comprehensive Guidelines are to apply mutatis mutandis to the examination of governance, and whether the representative director, directors and board of directors, auditors and board of auditors, and the internal audit section, etc. are fulfilling their functions respectively in an appropriate manner is to be verified, in accordance with the characteristics, size, complexity, etc. of the business of individual Investment Management-Related Service Entrusted Business Operators.

III-2 Appropriateness of Business Operations

III-2-1 Development of Operational Control System

Investment Management-Related Service Entrusted Business Operators are required to develop an operational control system for appropriately performing the Investment Management-Related Entrusted Business under Article 66-78 of the FIEA. They need to develop a system to satisfy appropriate levels and depths for each item regarding the operational control system required under the items of Article 358 of the Cabinet Office Order on Financial Instruments Business (referred to below as the "FIB Cabinet Office Order") in accordance with the characteristics, size, complexity, etc. of their Investment Management-Related Service (limited to the service for which the registration under Article 66-71 of the FIEA or the registration for change under Article 66-75(4) of the FIEA has been obtained; the same applies in III-2-1).

Based on the above, supervisors are to conduct examinations on the status of the development of an operational control system by Investment Management-Related Service Entrusted Business Operators for each of the items prescribed in the items of Article 358 of the FIB Cabinet Office Order, while considering the following points, for example.

- (1) Establishment of internal rules, etc. for appropriately performing the Investment Management-Related Service Entrusted Business
 - (i) Whether the Investment Management-Related Service Entrusted Business Operator has established internal rules, etc. appropriately, in consideration of the details, characteristics, size, complexity, etc. of its Investment Management-Related Service;
 - (ii) Whether the Investment Management-Related Service Entrusted Business Operator takes measures for its officers and employees, such as providing them with training, under the recognition that compliance with internal rules, etc. is part of company-wide legal and regulatory compliance responsibility.
- (2) Measures to ensure the appropriateness of business operations of Investment Management-Related Service Entrusted Business Operators
 - (i) Whether the Investment Management-Related Service Entrusted Business Operator has conducted the following, for example, as a measure to develop a system for preserving and managing information in relation to the performance of its Investment Management-Related Service:
 - A. Whether rules have been established regarding the preservation and management of information that its officers and employees have obtained through business operations for its Investment Management-Related Service Entrusted Business;
 - B. Whether a system has been developed for verifying and ensuring the preservation and management of information in line with the established rules mentioned in A. above;

- C. Whether guidance and training on the preservation and management of information have been sufficiently given to officers and employees;
- (ii) Whether the Investment Management-Related Service Entrusted Business Operator has conducted the following, for example, as a measure to develop a system for communication with the outsourcer of the Investment Management-Related Service (referred to below as the "outsourcer") necessary for performing the Investment Management-Related Service Entrusted Business:
 - A. Whether liaison staff and the method of communication with the outsourcer have been specified with regard to the Investment Management-Related Service;
 - B. Whether a system has been developed for sharing information and having contact with and making reports to the outsourcer with regard to the performance of the Investment Management-Related Service with sufficient frequency by an appropriate method;
 - C. Whether a system has been developed to have contact with and make reports to the outsourcer promptly when receiving a request regarding the Investment Management-Related Service from the outsourcer or upon the occurrence of any problem regarding matters relevant to the Investment Management-Related Service;
 - D. Whether a system has been developed to receive the provision of information necessary for performing the Investment Management-Related Service from the outsourcer (including a system to point out to the outsourcer any suspicion on the accuracy of the provided information or to request further information when the provided information is insufficient);
 - E. Whether a system has been developed to surely provide the outsourcer with the outcome of performing the Investment Management-Related Service (including the indication of any points to be rectified by the entrusting party in light of laws and regulations and the purport of the entrustment contract concluded with the outsourcer);
 - F. Whether the matters set forth in A. to E. above are clearly specified in the written contract for the outsourcing with the outsourcer;
- (iii) Whether the Investment Management-Related Service Entrusted Business Operator has conducted the following, for example, as a measure to sufficiently secure personnel with professional knowledge and skills that enable appropriate and smooth performance of the Investment Management-Related Service:
 - A. Recruitment of and training for officers and employees in charge of the Investment Management-Related Service:

Whether the Investment Management-Related Service Entrusted Business Operator appropriately recruits personnel and provides them with training in order to sufficiently secure personnel with professional knowledge and skills that enable appropriate and smooth performance of the Investment Management-Related Service;
 - B. Staffing for performing the outsourced Investment Management-Related Service:

Whether the Investment Management-Related Service Entrusted Business Operator appropriately staffs personnel necessary for appropriate and smooth performance of the

outsourced Investment Management-Related Service in accordance with the details and characteristics of the relevant service;

C. Appointment of a person responsible for supervising the performance of the outsourced Investment Management-Related Service:

Whether the Investment Management-Related Service Entrusted Business Operator has clarified the authority and responsibility of a person responsible for supervising the performance of the outsourced Investment Management-Related Service and has appropriately established the appointment method in the process of performing the relevant service, and whether the appointed responsible person is exercising the supervisory authority appropriately or is otherwise fulfilling their function effectively;

(iv) Whether the Investment Management-Related Service Entrusted Business Operator has appropriately established the policy and procedures for verifying the appropriateness of its Investment Management-Related Service (including the development of a system for double checking and making requests for further information from the outsourcer when any suspicion arises regarding the accuracy of the provided information, etc.), for example, in advance and is conducting verification in line with those policy and procedures as a measure to ensure the appropriateness of the relevant service, and whether the Investment Management-Related Service Entrusted Business Operator verifies the adequacy and workability of those policy and procedures appropriately on a timely basis and reviews them as necessary;

(v) Whether the Investment Management-Related Service Entrusted Business Operator has established the policy and procedures for verifying ex post facto the performed Investment Management-Related Service and is appropriately conducting verification and review in line with those policy and procedures as a measure to ensure the appropriateness of the relevant service, and whether the Investment Management-Related Service Entrusted Business Operator verifies the adequacy and workability of those policy and procedures appropriately on a timely basis and reviews them as necessary;

(vi) Whether the following systems have been developed as a measure to ensure appropriate supervision, etc. of the Investment Management-Related Service Entrusted Business Operator by the outsourcer:

A. A system for providing prior explanations so that the entrusting party can understand the scope of the Investment Management-Related Service for which the Investment Management-Related Service Entrusted Business Operator has obtained registration;

B. In the case of subcontracting the outsourced Investment Management-Related Service to a third party, a system for providing explanations about the subcontracting and obtaining consent from the outsourcer.

(3) Measures to identify acts involving a conflict of interest between the outsourcer and the Investment Management-Related Service Entrusted Business Operator or a third party (including any outsourcer other than the relevant outsourcer) and other equivalent acts (referred to below as "acts in conflict

of interest"), out of acts in the Investment Management-Related Service, by an appropriate method, and to ensure that those acts will not hinder the appropriate performance of the Investment Management-Related Service

- (i) Whether the Investment Management-Related Service Entrusted Business Operator has conducted the following, for example, as a measure to identify acts in conflict of interest:
 - A. Whether the Investment Management-Related Service Entrusted Business Operator has identified and categorized acts in conflict of interest by an appropriate method in advance;
 - B. Whether the Investment Management-Related Service Entrusted Business Operator appropriately reflected the characteristics, size, complexity of the relevant service when identifying acts in conflict of interest;
 - C. Whether the Investment Management-Related Service Entrusted Business Operator verifies the adequacy of the identified and categorized acts in conflict of interest appropriately on a timely basis and reviews them as necessary;
- (ii) Whether the Investment Management-Related Service Entrusted Business Operator has conducted the following, for example, as a measure to ensure that the appropriate performance of the Investment Management-Related Service will not be hindered by any act in conflict of interest:
 - A. Whether the Investment Management-Related Service Entrusted Business Operator has appropriately specified measures to ensure that the appropriate performance of the Investment Management-Related Service will not be hindered by any of the acts in conflict of interest identified and categorized as mentioned in (i)A. above in accordance with their characteristics;
 - B. Whether an internal control environment has been developed to check whether any act falls under the categories of acts in conflict of interest upon performing the Investment Management-Related Service, and whether the Investment Management-Related Service Entrusted Business Operator takes appropriate measures, when any act falls under an act in conflict of interest, in order to ensure that the appropriate performance of the relevant service will not be hindered by that act;
 - C. Whether the Investment Management-Related Service Entrusted Business Operator verifies the adequacy and workability of the measures to ensure that the appropriate performance of the Investment Management-Related Service will not be hindered by any act in conflict of interest identified as mentioned in (i)A. above appropriately on a timely basis and reviews them as necessary;
- (iii) Whether the Investment Management-Related Service Entrusted Business Operator has developed rules on the measures to ensure that the appropriate performance of the Investment Management-Related Service will not be hindered by any act in conflict of interest identified as mentioned in (i)A. above, and implements those rules as a measure to ensure that, and whether the Investment Management-Related Service Entrusted Business Operator verifies the adequacy and workability of those rules appropriately on a timely basis and reviews them as

necessary.

- (4) Measures to prevent any acts in service other than that for the Investment Management-Related Service Entrusted Business from exerting an undue influence on the Investment Management-Related Service
 - (i) Whether the Investment Management-Related Service Entrusted Business Operator has clarified services relating to its Investment Management-Related Service Entrusted Business and other services and has identified and categorized acts in such other services that may exert an undue influence on the Investment Management-Related Service by an appropriate method in advance;
 - (ii) Whether the Investment Management-Related Service Entrusted Business Operator takes measures to prevent any of the identified and categorized acts in other services from exerting an undue influence on the Investment Management-Related Service, such as through the management by separating service sectors, in accordance with the characteristics of the identified and categorized acts, and whether the Investment Management-Related Service Entrusted Business Operator verifies the adequacy and workability of those measures appropriately on a timely basis and reviews them as necessary.
 - (5) Measures to manage information obtained through Investment Management-Related Service and appropriately maintain confidentiality
 - (i) Whether the Investment Management-Related Service Entrusted Business Operator has established concrete standards for the handling of information and secrets obtained through services for its Investment Management-Related Service Entrusted Business and is disseminating those standards among its officers and employees, and whether the Investment Management-Related Service Entrusted Business Operator clearly prohibits in those standards the use of such information and secrets for any purpose other than those found necessary for appropriately performing its Investment Management-Related Service Entrusted Business;
 - (ii) Whether the Investment Management-Related Service Entrusted Business Operator has identified the scope of the secrets and persons who may obtain such secrets in the course of their work in accordance with the outsourced Investment Management-Related Service, and has developed an internal control environment for preventing a leakage of secrets for confidentiality management through such means as controlling access to secrets, establishing measures to prevent insiders from taking out secrets, and developing a robust information management system that prevents illegal access from the outside, and whether an internal control environment has been developed to enable verification of the status of management of those information and secrets appropriately on a timely basis.
- (Note) The provisions in "III-2-4 Control Environment for the Management of Information Related to Customers, etc." of the Comprehensive Guidelines are to apply mutatis mutandis for Investment Management-Related Service Entrusted Business Operators'

efforts for developing a control environment for the management of customer information, and the provisions in "III-2-8 Control Environment for Managing Information Technology Risk" of the Comprehensive Guidelines are to apply mutatis mutandis for their efforts for developing a control environment for the management of information technology risk.

III-2-2 Prohibition of Subcontracting

An Investment Management-Related Service Entrusted Business Operator may not subcontract its Investment Management-Related Service to a third party unless it obtains approval from the Prime Minister (Prohibition of Subcontracting; Article 66-80(1) of the FIEA).

An application for approval for subcontracting of Investment Management-Related Service is to be rejected only when the Prime Minister finds that the subcontracting (including subcontracting by multiple stages) is likely to hinder the appropriate performance of the Investment Management Business, etc. by a person who had outsourced the relevant Investment Management-Related Service to the applicant (paragraph (2) of that Article).

Regarding this point, the following cases, for example, are cited as cases where the subcontracting of the Investment Management-Related Service is found likely to hinder the appropriate performance of the Investment Management Business, etc. by a person who had outsourced the relevant Investment Management-Related Service to the applicant:

- (i) A case where the entirety of the outsourced Investment Management-Related Service is to be subcontracted to a person other than the Investment Management-Related Service Entrusted Business Operator;

(Note) Whether the entirety of the outsourced Investment Management-Related Service is to be subcontracted or not is to be judged for each of the services set forth in III-3-1-1(2)A. or B., for example.

- (ii) A case where the Investment Management-Related Service Entrusted Business Operator has not developed a system for providing explanations to and obtaining consent from the outsourcer with regard to the subcontracting of the outsourced Investment Management-Related Service.

When the Investment Management-Related Service Entrusted Business Operator intends to subcontract only administrative processes or other processes incidental to the Investment Management-Related Service, approval from the Prime Minister is not required for such subcontracting.

(Note) The provisions in "III-2-7 (2) Outsourcing of Administrative Processes" of the Comprehensive Guidelines are to apply mutatis mutandis for Investment Management-Related Service Entrusted Business Operators' efforts for developing a control environment for managing the outsourcing of business operations upon subcontracting of their service.

III-2-3 Supervisory Method and Actions

When supervisors have recognized an issue of supervisory concern regarding the control environment for operational and financial issues of an Investment Management-Related Service Entrusted Business Operator, through daily supervisory administration, they are to identify and keep track of the status of voluntary improvement made by the Investment Management-Related Service Entrusted Business Operator, by holding in-depth hearings and requiring the submission of reports as necessary based on Article 66-88 of the FIEA.

When the Investment Management-Related Service Entrusted Business Operator is deemed to have a serious problem from the viewpoint of protecting public interests and investors, supervisors are to take actions, including the issuance of an order for business improvement based on Article 66-84 of the FIEA.

Furthermore, when the Investment Management-Related Service Entrusted Business Operator is deemed to have committed a serious and malicious violation of law, supervisors are to consider necessary actions, including the issuance of an order for business suspension based on Article 66-85(1) of the FIEA.

III-3 Various Administrative Procedures

III-3-1 Registration

III-3-1-1 General Administrative Procedures for Registration

(1) Representative or agent in Japan and business office or office in Japan

- (i) It should be kept in mind that the representative or agent in Japan of an Investment Management-Related Service Entrusted Business Operator that is a foreign juridical person, and officers and employees stationed at its business office or office in Japan need to have the ability to accurately ascertain the status of business operations of the Investment Management-Related Service Entrusted Business Operator and to appropriately explain it to the outsourcer and the authorities;
- (ii) It should be kept in mind that at a business office or office in Japan of an Investment Management-Related Service Entrusted Business Operator that is a foreign juridical person, a system needs to be put in place to enable officers and employees stationed at the business office or office to refer to materials (internal rules, etc.), with which they can check the status of the development of an operational control system by the Investment Management-Related Service Entrusted Business Operator, and it should also be kept in mind that even if records on the Investment Management-Related Service Entrusted Business are preserved in the relevant foreign juridical person's base outside Japan, a system needs to be put in place to enable officers and employees stationed at the business office or office in Japan to check those records within a reasonable period of time.

(2) Details of the Investment Management-Related Service for the Investment Management-Related Service Entrusted Business for which an application for registration is filed

With regard to the statements concerning the details of the Investment Management-Related Service for the Investment Management-Related Service Entrusted Business for which an application for registration is filed as prescribed in Article 348(2)(i) of the FIB Cabinet Office Order, it is necessary to check whether those statements clarify, for example, which of the following Investment Management-Related Service is to be performed, as the concrete details of the relevant service. Incidentally, "Investment Management-Related Service" refers to a service with certain continuity and an active nature that may have a decisive influence on the quality of an outsourcer's Investment Management Business. Other services without such nature do not fall under the category of Investment Management-Related Service.

A. Concrete details of the Investment Management-Related Service prescribed in Article 2(43)(i) of the FIEA:

- a. Evaluation of the investment trust asset and verification thereof (including calculation of the constant value of the investment trust property, tabulation of the establishment and

cancellation of investment trust for the relevant calculation, checking of asset execution, recording of interest and dividends, etc.);

- b. In addition to a. above, evaluation of the property subject to investment and verification thereof;
- B. Concrete details of the Investment Management-Related Service prescribed in item (ii) of that paragraph:
 - a. Regular compliance monitoring of business operations, identification and resolution of issues and other relevant services;
 - b. Drafting and managing internal rules and other manuals related to compliance;
 - c. Planning and implementing periodic compliance training and providing information on compliance.

As stated in III-2-1(2)(vi)A. above, it is necessary to check whether the Investment Management-Related Service Entrusted Business Operator has developed a system to provide prior explanations so that the outsourcer can understand the scope of the Investment Management-Related Service for which the business operator has obtained registration. Additionally, it is also necessary to check whether the written contract for the outsourcing concluded with the outsourcer regarding the outsourced Investment Management-Related Service clearly and specifically indicates which service is outsourced, among the Investment Management-Related Service for the registered Investment Management-Related Service Entrusted Business.

(3) Documents to be attached to the written application for registration

- (i) The abstract of residence certification to be submitted must contain the following items:

- A. Address;
- B. Name;
- C. Date of birth;
- D. Registered domicile;

- (ii) A copy of residence certification of the home country submitted by a foreigner living outside Japan, or any other documents equivalent thereto (a Japanese translation must be attached to all documents in English, etc. except for a case of registration procedures undertaken in English) falls under the "documents in lieu thereof" prescribed in Article 350(1)(ii)(b) of the FIB Cabinet Office Order and item (iii)(b) of that Article.

(4) Handling of registration numbers

- (i) Each registration is to be identified by a serial number (however, the following numbers must not be used, 4, 9, 13, 42, 83, 103, and 893), which is assigned by each local finance bureau, and a registration number to be entered into the Registry of Investment Management-Related Service Entrusted Business Operators is subject to the following rules;

e.g.) Director General of Finance Bureau (Investment Management-Related Service Entrusted Business) No.

- (ii) When a registration is no longer valid, its registration number must be retired and no new number will be issued in its place;
- (iii) Registration numbers are to be managed by the Registration Number File of Investment Management-Related Service Entrusted Business Operators prepared in accordance with Appended Form III-2 of the Comprehensive Guidelines.

(5) Notification to applicants for registration

When registration is made in the Registry of Investment Management-Related Service Entrusted Business Operators, a notification of registration prepared in accordance with Appended Form III-3 of the Comprehensive Guidelines is to be issued to the applicant for registration.

(6) Refusal of registration (Also refer to "II-5-6 Relation to the Administrative Procedure Act and Other Laws" of the Comprehensive Guidelines)

- (i) In the case of refusal, a notification of refusal of registration, which contains the grounds for refusal and states the fact that the applicant may file a request for administrative review with the Commissioner of the FSA and file an appeal to seek rescission of the disposition against the state, is to be prepared in accordance with Appended Form III-4 of the Comprehensive Guidelines and be issued to the applicant;
- (ii) A notification of refusal of registration must specifically indicate the grounds for refusal, any of the applicable items out of Article 66-74 of the FIEA, false statements or missing important facts out of important matters contained in the written application for registration and documents attached thereto.

(7) Registry of Investment Management-Related Service Entrusted Business Operators

- (i) The Registry of Investment Management-Related Service Entrusted Business Operators is to be prepared according to the section from page 2 to page 10 of the copy of the written application for registration;
- (ii) When a notification of change in items of application for registration is submitted, the relevant page of the Registry of Investment Management-Related Service Entrusted Business Operators will be replaced by the revised page of the written application for registration attached to the notification;
- (iii) When receiving notifications of change in items of application for registration submitted by Investment Management-Related Service Entrusted Business Operators, the FSA compiles those notifications every month and sends the revised pages of the written applications to the local finance bureaus that registered the relevant Investment Management-Related Service Entrusted Business Operators, by the 20th of the following month.

(8) Inspection of the Registry of Investment Management-Related Service Entrusted Business Operators
The inspection of the Registry of Investment Management-Related Service Entrusted Business

Operators prescribed in Article 66-73(2) of the FIEA and Article 352 of the FIB Cabinet Office Order is to be handled as follows.

It should be kept in mind that when a person who has changed their last name files an application for inspection of the Registry of Investment Management-Related Service Entrusted Business Operators, the person may enter, in addition to the current last name, the former last name (meaning the former last name prescribed in Article 30-13 of the Order for Enforcement of the Act for Basic Register of Residents (Cabinet Order No. 292 of 1967)) in the parentheses in the column in the application form where the person entered their name as an applicant.

(i) Inspection via e-mail, etc.:

- A. When receiving an application for inspection of the Registry of Investment Management-Related Service Entrusted Business Operators via e-mail, etc., the relevant Finance Bureau is to check the information regarding the application, and send the relevant Registry of Investment Management-Related Service Entrusted Business Operators promptly via e-mail, etc. However, when it is necessary to adjust or otherwise arrange the registry, the bureau may send the registry as soon as it becomes possible to do so;
- B. An application for inspection of the Registry of Investment Management-Related Service Entrusted Business Operators via e-mail, etc. is received by e-mail, etc. containing the following information:
 - a. Applicant's name;
 - b. Applicant's address;
 - c. Applicant's telephone number;
 - d. Email address to which the registry is to be sent;
 - e. Applicant's occupation;
 - f. Tradename or name and registration number of the Investment Management-Related Service Entrusted Business Operator regarding which the inspection of the registry is being sought;
 - g. Purpose of the inspection;
- C. When an applicant does not follow the instructions of the bureau, the bureau may refuse to send the Registry of Investment Management-Related Service Entrusted Business Operators for which the application was filed;
- D. When receiving an application for inspection of the Registry of Investment Management-Related Service Entrusted Business Operators in relation to an Investment Management-Related Service Entrusted Business Operator registered by the Director-General of another Finance Bureau, the bureau is to tell the applicant that they can file an application for inspection to the Finance Bureau that registered the relevant Investment Management-Related Service Entrusted Business Operator;

(ii) Inspection at a Finance Bureau:

- A. Days for inspecting the Registry of Investment Management-Related Service Entrusted Business Operators are days other than holidays for administrative organs prescribed in

Article 1 of the Act on Holidays of Administrative Organs (Act No. 91 of 1988), and hours for inspection are to be within the hours designated by the Director-General of the relevant Finance Bureau. However, the inspection date or time may be changed when it is necessary to adjust or otherwise arrange the registry;

- B. When receiving an application for inspection, the relevant Finance Bureau is to request the applicant to enter the prescribed matters in an application form for inspection prepared in accordance with Appended Form III-5 of the Comprehensive Guidelines;
- C. The Registry of Investment Management-Related Service Entrusted Business Operators must not be removed from the inspection area designated by the Director-General of the Finance Bureau;
- D. In cases where a person inspecting the registry falls under any of the following categories, their inspection may be suspended or refused:
 - a. Any person who does not abide by A. through C. above or who does not follow the instructions of the bureau;
 - b. Any person who has defaced or damaged the Registry of Investment Management-Related Service Entrusted Business Operators, or who may do so;
 - c. Any person who has caused trouble to other inspectors, or who may do so;
- E. When receiving an application for inspection of the Registry of Investment Management-Related Service Entrusted Business Operators in relation to an Investment Management-Related Service Entrusted Business Operator registered by the Director-General of another Finance Bureau, the bureau is to tell the applicant that they can file an application for inspection to the Finance Bureau that registered the relevant Investment Management-Related Service Entrusted Business Operator.

III-3-1-2 Examination Items

(1) Items regarding examination of system's appropriateness

When examining whether the Investment Management-Related Service Entrusted Business Operator falls under any of the persons prescribed in Article 66-74(iii), (vii)(c), and (viii)(c) of the FIEA, supervisors are to check the following items based on the written application for registration and documents attached thereto and by conducting interviews. The following items are also to be checked when examining whether the business operator falls under a person who is not found to have sufficiently developed a system necessary for appropriately performing the Investment Management-Related Service Entrusted Business prescribed in Article 66-74(iv) of the FIEA:

- (i) The following items, for example, to determine whether the Investment Management-Related Service Entrusted Business Operator is found to be capable of appropriately performing its business operations in light of how it has secured officers or employees with sufficient expertise and experience and has developed its organizational structure:
 - A. The manager has sufficient credentials, in light of their career and capability, to fairly and

appropriately perform business operations as an Investment Management-Related Service Entrusted Business Operator;

- B. Managing directors have [i] adequate expertise and experience for understanding and carrying out requirements under related laws and regulations such as the FIEA, as well as points of attention described in the Guidelines, and [ii] sufficient experience and expertise concerning compliance and risk management, which are necessary for fairly and appropriately performing the Investment Management-Related Service Entrusted Business;
 - C. Staff with expertise and experience required for the outsourced Investment Management-Related Service are secured as staff in charge of Investment Management-Related Service Entrusted Business;
 - D. Organization and staffing level are maintained in such a way that adequate human resources are appropriately allocated and persons responsible for internal control, etc. are assigned to the relevant divisions;
 - E. The Investment Management-Related Service Entrusted Business Operator endeavors to secure a sufficient level of staff to make it possible to develop systems for the following, for example, for its business operations:
 - a. Compilation and management of records and reports, etc. concerning the Investment Management-Related Service Entrusted Business;
 - b. Risk management;
 - c. Conflict of interest management;
 - d. Information management;
 - e. Internal audits;
 - F. An appropriate representative or appropriate agent in Japan is appointed; for example, a person who can, with a certain level of knowledge of the FIEA in relation to the Investment Management-Related Service Entrusted Business, accurately inform the supervisory authority of reports by the Investment Management-Related Service Entrusted Business Operator, accurately understand the details of the supervisory authority's requests for reports, etc. and properly respond to such requests in collaboration with the Investment Management-Related Service Entrusted Business Operator, rather than simply relaying information between the business operator and the supervisory authority;
- (ii) Whether a comprehensive examination of the qualifications of officers and employees in relation to the following criteria regarding organized crime groups (meaning the organized crime groups prescribed in Article 2(ii) of the Act on Prevention of Unjust Acts by Organized Crime Group Members; the same applies below) or organized crime group members (meaning organized crime group members prescribed in item (vi) of that Article; the same applies below) has revealed the risk that public confidence in services for the Investment Management-Related Service Entrusted Business could be damaged because of the existence of any officer or employee with inappropriate qualifications among its staff:
- A. Officers and employees must not be organized crime group members nor have been in the

past;

- B. Officers and employees must not have close relationships with any organized crime groups;
- C. Officers and employees must not have the experience of being sentenced to a fine for violation of the FIEA or other domestic financial laws and regulations or equivalent foreign laws and regulations (including equivalent punishments imposed under foreign laws or regulations);
- D. Officers and employees must not have the experience of being sentenced to a fine for violation of the Act on Prevention of Unjust Acts by Organized Crime Group Members (excluding Article 32-2(7) of the same Act) or equivalent foreign laws and regulations, or violation of the Penal Code or the Act on Punishment of Physical Violence and Others (including equivalent punishments imposed under foreign laws or regulations);
- E. Officers or employees must not have the experience of being sentenced to imprisonment or more severe punishment (including equivalent punishments imposed under foreign laws or regulations). (Particular attention should be paid to the case of an officer or employee having been accused of committing crimes specified under Articles 246 to 250 of the Penal Code (fraud, fraud using computers, breach of trust, quasi fraud and extortion as well as attempts at these crimes).)

(Note) In the case where the relevant Investment Management-Related Service Entrusted Business Operator is an individual, supervisors are to examine the individual's qualifications, etc. based on items set forth in (i) and (ii) above.

(2) Items regarding the financial basis

When examining whether the Investment Management-Related Service Entrusted Business Operator falls under a person prescribed in Article 66-74(v) of the FIEA, supervisors are to check the following items based on the written application for registration and documents attached thereto and by conducting interviews to determine whether the business operator has a financial basis for appropriately performing the Investment Management-Related Service Entrusted Business:

- (i) When the applicant for registration is a corporation, whether it has a certain level of stated capital (a level similar to the requirements for stated capital (see Article 15-7(1)(iv) of the Order for the Enforcement of the Financial Instruments and Exchange Act (referred to below as the "FIEA Enforcement Order")) regarding the Investment Management Business (limited to the case of not accepting deposits of money or securities from customers and not having customers deposit their money or securities to a person prescribed in Article 15-4-2 of the FIEA Enforcement Order in relation to its Investment Management Business);
- (ii) Whether the amount of net assets (as calculated in accordance with Article 14 of the FIB Cabinet Office Order) of the applicant for registration is at a similar level as that required in (i) above.

(3) Supervisory method and actions

The requirements specified in III-3-1-2(1) of the Guidelines are part of a comprehensive set of

elements that should be taken into consideration when supervisors examine whether an Investment Management-Related Service Entrusted Business Operator is adequately staffed to appropriately perform its business operations. Even if it is considered that an officer or an employee does not meet the requirements, this should not automatically lead to the conclusion that the Investment Management-Related Service Entrusted Business Operator is not adequately staffed. The important thing is, first and foremost, that the business operator endeavors to ensure an adequate personnel structure on its own responsibility, in light of those requirements and other elements.

However, supervisors are to hold in-depth hearings regarding the Investment Management-Related Service Entrusted Business Operator's thoughts on staffing and the selection process concerning the proposed appointments of officers and employees, etc., in cases where the Investment Management-Related Service Entrusted Business Operator is deemed to have failed to take those elements into consideration sufficiently in the selection process, and where it is deemed to be necessary and appropriate for the protection of the public interests and investors to hold such hearings. In addition, they should require the submission of reports based on Article 66-88 of the FIEA when necessary.

Supervisors are to consider taking actions such as the issuance of an order for business improvement under Article 66-84 of the FIEA, in cases where the Investment Management-Related Service Entrusted Business Operator's control environment for governance is deemed to have a serious problem as a result of the examination of the submitted report, and where the action is deemed to be necessary and appropriate from the viewpoint of protecting public interests and investors.

Furthermore, when it is found that the Investment Management-Related Service Entrusted Business Operator is not adequately staffed to appropriately perform service for its Investment Management-Related Service Entrusted Business, as a result of the examination of the submitted report, supervisors are to consider taking necessary measures, including the issuance of an order for business suspension based on Article 66-85(1) of the FIEA.

In the case of an Investment Management-Related Service Entrusted Business Operator that is an individual, supervisors are to examine the qualifications of the person from the above viewpoints, and judge whether the staffing level is sufficient for appropriately performing services for the Investment Management-Related Service Entrusted Business, and take necessary actions as in the case of corporate entities.

III-3-2 Notification

With regard to a notification of discontinuation of business, etc. filed by an Investment Management-Related Service Entrusted Business Operator, at the time of receiving a written notification based on Article 66-83(1) of the FIEA, supervisors are to confirm that there are no grounds for rescission of the registration prescribed in the provision of Article 66-85(1) of the FIEA by such means as conducting interviews with the relevant Investment Management-Related Service Entrusted

Business Operator.

III-3-3 Preparation and Preservation of Records

Regarding the preparation and preservation of records, consideration should be given to the following points.

(1) Basic points to consider

- (i) Whether the method of preparation and preservation of records set forth in Article 360 of the FIB Cabinet Office Order is established specifically in internal rules, etc.;
- (ii) If one record doubles as another record or a part of a record is preserved as another record, whether such irregular records are within a reasonable scope that does not hinder the verification of the appropriateness of the business operations and whether matters to be stated are all stated in accordance with the categories of records.

(2) Preservation of records using electronic media

Whether the following are ensured when using electronic media to preserve records:

- (i) Handwritten records are saved as image data;
- (ii) The electronic media for preservation have sufficient durability to last for the preservation period prescribed in Article 360(2) of the FIB Cabinet Office Order;
- (iii) One of the electronic media used for data preservation is to be designated as "original" and be clearly labeled to that effect (judgment on the condition of preservation of records is to be made in conformity with this "original");
- (iv) A backup of the "original" mentioned in (iii) above should be created and stored as a "copy";
- (v) The system enables prompt response to client referrals;
- (vi) The system allows hard copies of records preserved as data to be created within a reasonable period of time;
- (vii) The system can track deleted/corrected records, if deletion/correction of input history is made;
- (viii) The system can accommodate internal audits;
- (ix) Personnel in charge of preparation and preservation have been appointed and internal rules on the preparation and preservation have been developed;
- (x) When a handwritten postscript or supplement is made to a hard copy of a record created electronically, a copy of the hard copy is to be made and saved as image data. If it is not saved as image data, the hard copy is to be preserved as the original.