

Summary of Applicant for New Registration or its Change (Investment Management Business)

Applicant name: _____

Address: _____

Contact (Name of person in charge) _____

Telephone () _____

FAX () _____

E-mail _____

Contact of application proxy _____

Telephone () _____

FAX () _____

E-mail _____

- *1. If the applicant is foreign corporation, please enter the contact in Japan.
- *2. For address, please write location up to the name of the building and the room number.
- *3. The "Relevant statutory documents" below shows the documents required for registration application related to each item.
- *4. Names of the major related laws and regulations are abbreviated as follows:
 - 1) The Act: Financial Instruments and Exchange Act;
 - 2) The FIB Cabinet Office Ordinance: Cabinet Office Ordinance on Financial Instruments Business, etc.;
 - 3) The FIEA Enforcement Order: Order for the Enforcement of the Financial Instruments and Exchange Act; and
 - 4) The Guidelines for Supervision: Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc.

For items with boxes, please check the box that applies to you.

For items requiring written explanation, enter the facts and specific internal rules and other details for you.

The purpose of this summary form is to make your situations clear, including the environment for business execution and internal control systems, so as to enable you to smoothly complete the registration procedure.

(Items with boxes marked as [Required] are statutory requirements for registration.)

1. Company overview

(1) Date of establishment and brief history of the company

(i) Type of company

- ☐ Stock company (established on : [date]) (Required)
- ☐ Not a stock company (scheduled to establish a stock company by: [date])
- ☐ Foreign corporation (established on : [date])

(Write the corporate history)

*1: Please attach existing documents describing your company overview if any (including

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the background of your group companies that have capital ties or other close relationships with your company).

- *2: If you have any foreign group company engaging in Financial Instruments Business, please attach the document indicating the country of business operation, registration number, applicable laws and regulations, scale of the organization, and business performance (including the amount of assets under management).

(ii) Status of a board of directors and auditor(s)

(In the case of Investment Management Business)

- ☐ Having a board of directors and auditor(s)/audit & supervisory committee/nominating committee, etc., (established on: [date]) (Required)
- ☐ Not having a board of directors and auditor(s)/audit & supervisory committee/nominating committee, etc. (scheduled to be established on: [date])

*In the case of a foreign corporation, please attach a document (e.g., an organizational chart of the company) showing that it is a corporation of a type equivalent to a company with a board of directors.

(In the case of Investment Management Business for Qualified Investors)

- ☐ Having auditor(s)/audit & supervisory committee/nominating committee, etc. (Established on: [date]) (Required)
- ☐ Not having auditor(s)/audit & supervisory committee/nominating committee, etc. (Scheduled to be established on: [date]) (Required)

*In the case of a foreign corporation, please attach a document (e.g., an organizational chart of the company) showing that it is a corporation of a type equivalent to a company with auditor(s)/audit & supervisory committee/nominating committee, etc.

[Relevant statutory documents: Certificate of registered matters (Article 29-2(2)(iii) of the Act)]

(2) Scheduled date of commencement of business

Date:

- *1. Enter the date after registration on which you are planning to start business operations.

In the case of a new registration, the standard processing period is two months after the application form is received by the competent authority. Prior consultation is not included in this period. To smoothly proceed with the procedure from prior consultation up to registration, (i) the specific operations that you are going to conduct and the methods thereof, (ii) personnel structure, and (iii) internal control systems should be determined at an early stage.

- *2. Please note that, for starting business operations, ADR measures (alternative dispute resolution measures) should be implemented by joining a financial instruments firms association or other means after registration.

(3) Amount of capital/contribution

(i) Amount of capital (or total amount of contribution)

(In the case of Investment Management Business)

- ☐ 50 million yen or more (as of: [date]) (Required)
- ☐ Less than 50 million yen (as of: [date])

(In the case of Investment Management Business for Qualified Investors)

- ☐ 10 million yen or more (as of: [date]) (Required)
- ☐ Less than 10 million yen (as of: [date])

(ii) If you have checked an amount that does not meet the statutory requirement above, please explain the timing and method of funding, and other details.

EX.: A capital increase of XX million yen by YYYY is planned on (date).

[Relevant statutory documents: Registration application form Sheet 3, Certificate of registered matters (Article 29-2(2)(iii) of the Act)]

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- (4) Number of officers and employees (total number of officers and employees, as well as the number for each business office if you have multiple offices. For a foreign corporation, enter in a bracket the number of staff members in charge of Japanese customers.)

		Full-time	Part-time
Officers	(persons persons)	persons	persons
Employees	(persons persons)	persons	persons
Total	(persons persons)	persons	persons

* You may prepare and attach an organizational chart instead of this table.

[Relevant statutory documents: Organizational chart (Article 8(ii) and (iii) of FIB Cabinet Office Ordinance)]

(5) Major Shareholder (as defined in Article 29-4(2))

(Name of the shareholder)	(Number of possessed voting rights/ Percentage)	(Number of voting rights held by the shareholder itself)	(Number of voting rights held by persons having a special relationship with the shareholder)	(Overview of the shareholder such as relationship with your company, business type and occupation) *In the case of a holding company, please so indicate.

- *1. When there are multiple shareholders, please attach a relationship diagram clarifying the above relationships.
- *2. When the shareholder is an individual: please attach his/her resume and extract of the certificate of residence (with legal domicile indicated, or any equivalent document in case of an overseas national.)
- *3. When the shareholder is a corporation: please attach a document describing the corporate background, the certificate of registered matters, and resumes and extracts of the certificate of residence (with legal domicile indicated, or any equivalent document in case of an overseas national) of its representative officers (all the officers with the right to represent)
- *4. When the shareholder is a partnership: please check and write each contributor's status of holding voting rights (if no one is applicable, write so.)
- *5. In checking whether a person falls under the "major shareholder", please note that "major shareholder" includes not only those who directly hold voting rights of the registration applicant but also their direct and indirect shareholders up to the ultimate shareholder as long as they hold over 50% of voting rights of the relevant intermediate shareholder, pursuant to the provision regarding "controlling shareholder" and "controlled company" of Article 15-10(2) of the FIEA Enforcement Order. In addition, when a shareholder has a "special relationship" defined in Article 15-10(1) of the FIEA Enforcement Order, the shareholder may constitute the major shareholder as a result of totaling the number of the registration applicant's voting rights held by a person in a "special relationship" with the shareholder even if it does not hold the voting rights. In case where the "controlled company" is a shareholder holding the voting rights, please check that there are no shareholders that hold over 50% of the voting rights of

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the ultimate shareholder, and write so on this form.

[Relevant statutory document: Document indicating the trade name of the major shareholder (Article 10(1)(iii)(b) of the FIB Cabinet Office Ordinance)]

[Relevant statutory document: (In the case of a foreign corporation) document certifying confirmation by the competent foreign authorities regarding the person equivalent to the major shareholder (Article 10(1)(iii)(c) of the FIB Cabinet Office Ordinance)]

(6) Financial instruments firms association to join

- ☐ Planning to join the Japan Investment Advisers Association (contact status:)
- ☐ Planning to join the Investment Trusts Association, Japan (contact status:)
- ☐ Not planning to join an association

*If not planning to join an association, explain about the matters below:

- (i) Status of formulation of internal rules that are equivalent to the rules of the association (including the departments in charge and specific methods to keep up with future revisions of the association rules and to revise internal rules in a timely manner)
- (ii) Status of arrangement of internal systems to ensure compliance with the internal rules (including the departments in charge and specific methods to familiarize officers and employees with the rules, provide training for employees, and verify the status of compliance)
- (iii) Reason for not joining an association

[Relevant statutory document: Registration application form Sheet 2]

(7) Main bank

XX Bank, YY Branch

(8) Consistency between the business to be registered and the purpose of business in the articles of incorporation

- ☐ No problem (Required)
(Purpose of business: Please write the purposes of business specified in the articles of incorporation)
- ☐ Revision to the articles of incorporation is necessary.
(Please write the purpose of business to be added and schedule for revision)

*Eligibility as an officer (Article 31-5 of the Act)

The provisions of Article 332(2) and Article 336(2) of the Companies Act, for example, are not applied. So please note that "Directors' terms of office continue until the conclusion of the annual shareholders meeting for the last business year which ends within two years from the time of their election" and "Company auditors' terms of office continue until the conclusion of the annual shareholders meeting for the last business year which ends within four years from the time of their election."

[Relevant statutory documents: Articles of incorporation (Article 29-2(2)(iii) of the Act)]

2. Business operations

(1) Purpose for entering the financial instruments business (in case of a foreign corporation, reason for seeking to register in Japan)

*Please explain the specific background and purpose of deciding to enter the financial instruments business, based on the company's situation and management policies.

(2) Business plan, and earnings and expenditure plan

- *1. Please explain the specific business plan for after registration based on the expectations such as the number of entrusted investments, amount of assets under management and amount of remuneration in case of a discretionary investment contract, for example.

Explain also about specific plans for, among others, developing customers, increasing officers and employees, and expanding business.

- *2. Please attach an estimate of earnings and expenditures for three years after registration. Please also explain the estimated changes in the amount of net assets.

Note that it is a statutory requirement to maintain the amount of net assets after registration.

(At least 50 million yen for Investment Management Business, and at least 10 million yen for Investment Management Business for Qualified Investors)

- *3. Explain the estimated revenues by the type of business for registration and the kind of contract (such as discretionary investment business and fund management business.)

Please explain also about the calculation processes.

(Ex.) Investment Management Business: (management fee) Invested amount \times 2.0%,
(performance fee) Investment profits \times 20.0%

Type II Financial Instruments Business: (solicitation fee) Amount handled \times 1.0%

[Relevant statutory document: Document showing the calculated amount of net assets (Article 10(1)(iii) (a) of the FIB Cabinet Office Ordinance)]

[Points to be noted: Points of Attention Regarding Applications for New Registrations (VI-3-1-1(6) of the Guidelines for Supervision)]

3. Description and methods of business

(1) Description of business

Check the business(es) below you are going to conduct after registration, and enter the kind of financial instruments (Article 2, paragraph (1), item (XX) Securities) to be actually handled for each business.

- ☐ Article 2(8)(xii)(a) of the Act (Investment corporation asset management business)
Kind of financial instruments:
- ☐ Article 2(8)(xii)(b) of the Act (Discretionary investment business)
Kind of financial instruments:
- ☐ Article 2(8)(xiv) of the Act (Investment trust management business)
Kind of financial instruments:
- ☐ Article 2(8)(xv) of the Act (Fund management business)
Kind of financial instruments:
- ☐ Investment Management Business for Qualified Investors

- *1. Please prepare and attach a detailed business scheme chart (clearly showing, among others, the flow of customer funds, processes of investment instructions and execution, and important service providers and roles thereof) for each business to be conducted. If the important service provider is not determined, indicate so and explain the scheduled time when it will be determined.

- *2. Do not enter the business that you plan to conduct in the future, as they are not subject to registration examination.

- *3. If you are to conduct Investment Management Business for Qualified Investors, check also the business(es) of (xii) through (xv) above that you are going to conduct.

[Relevant statutory document: Description and methods of business (Article 8(iv) and (ix) of the FIB Cabinet Office Ordinance)]

[Points to be noted: Documents Specifying Contents and Methods of Business Operations (VI-3-1-1(2) of the Guideline for Supervision)]

(2) Methods of business

(i) Customer base

- ☐ Professional investors only (specific customers base:)
- ☐ Qualified investors only (specific customers base:)
- ☐ Investors of all categories including individual investors (specific customers base:)

*For "specific customers base," enter the ultimate investors separately from direct customers if any.

(ii) Customer solicitation and explanations (Customer suitability)

• Overview

* Regarding customer solicitation, including examination of the suitability of customers, please explain common processes of the solicitation procedure by describing which departments solicit which type of customers through what procedure.

[Relevant statutory document: Description and methods of business (Article 8(ii) of the FIB Cabinet Office Ordinance)]

[Points to be noted: Documents Specifying Contents and Methods of Business Operations (VI-3-1-1(2) of the Guidelines for Supervision)]

• Sales manager

*1: Enter only when your business includes sales operations.

*2: For each person conducting practical operations, enter the name, position, major operation that the person will conduct, major career information (for the career in Financial Instruments Business, enter not only the corporate name but also, among others, the relevant department, operations of which the person is in charge and tenure at each position), and the qualifications held.

A resume (appended form) may be used to describe major career information.

Name _____

Position _____

Major business operations _____

Major career information _____

Qualifications held _____

(iii) Investment management

• Overview

*1. For each business operation provided in above (1), please explain the investment management operations including the financial instruments to be handled (such as securities and derivatives), investment strategies, and the common processes (including relevant departments and procedures) of operations such as investment decisions and method of supervision of investment status.

*2. Please prepare and attach a flowchart of business operations

For investment management, the Company mainly targets domestic listed stocks and makes investments under the principle of long-term holding (for xx years). First, the XX investment committee (members: general manager of investment management department, general manager of risk management department, general manager of XX department) decides the investment policies. Based on the decided investment policies, XX department formulates an investment plan. The staff in charge of investment (XX department) makes investment decisions based on the investment plan and places orders with the staff in charge of investment execution (XX

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department). Based on the orders received, the staff in charge of investment execution (XX department) issues orders to the XX securities company. As for supervision of the investment status, XX department examines the operations such as the details of the issued orders on a daily basis to confirm that they are in accordance with the Guidelines, based on XX.

[Relevant statutory document: Description and methods of business (Article 8(ii) of the FIB Cabinet Office Ordinance)]

[Points to be noted: Documents Specifying Contents and Methods of Business Operations (VI-3-1-1(2) and VI-3-1-2(4) of the Guidelines for Supervision)]

• Employees specified under the FIEA Enforcement Order (investment manager)

- *1. For each person conducting practical operations, enter the name, position, major operation that the person will conduct, major career information (for the career as an investment manager, such as a fund manager, enter not only the corporate name but also, among others, the relevant departments, operations of which the person is in charge and tenure at each position) and the qualifications held.
A resume (appended form) may be used to describe major career information.
- *2. Please explain the grounds on which you have decided that the person “has sufficient knowledge and experience on financial instruments for investment (such as securities and derivatives transactions).”

Name _____

Position _____

Major business operations _____

Major career information _____

Qualifications held _____

Sufficiency of knowledge and experience _____

[Relevant statutory documents: Registration application form Sheet 6, resumes of important employees (Article 9(ii)(a) of the FIB Cabinet Office Ordinance), documents stating the registration applicant's business execution system, such as its personnel structure and the organizational structure pertaining to the business (Article 9(i) of the FIB Cabinet Office Ordinance)]

[Points to be noted: Items to Be Specified in Documents Prescribed under Article 9(i) of the FIB Cabinet Office Ordinance. (Documents Specifying Framework for Business Execution Such as Staffing and Organization) (VI-3-1-1(3) of the Guidelines for Supervision)]

4. Internal control systems

(1) Organization

(i) Allocation of personnel

- *1. Please prepare and attach an organizational chart that clearly indicates the employees specified under the FIEA Enforcement Order, and name of the responsible person and the number of personnel to be allocated for each department. Please also provide a written explanation below.
- *2. Write all the business offices (business offices to conduct Financial Instruments Business [in the case of a foreign corporation, business offices for Japan]).
You may prepare and attach a separate sheet.

The business office of the Company is only the head office.

The Company has organs under the Companies Act (shareholders meeting, board of directors, company auditor), as well as a risk management committee (meeting: monthly in principle, members: representative director, directors, general managers in charge) to deliberate, verify, and make decisions on matters related to investment risks

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and various other risks.

Specific operations are assigned to the investment management department, sales department, business administration department, compliance department, and XX department. Allocation of operations are defined in the Rules on Organizations and Division of Duties.

The investment management department is mainly in charge of XX and comprised of XX members. The sales department is mainly in charge of XX and comprised of XX members. ...

[Relevant statutory documents: documents stating the registration applicant's business execution system, such as its personnel structure and the organizational structure pertaining to the business (Article 9(i) of the FIB Cabinet Office Ordinance)]

[Points to be noted: Items to Be Specified in Documents Prescribed under Article 9(i) of the FIB Cabinet Office Ordinance. (Documents Specifying Framework for Business Execution Such as Staffing and Organization) (VI-3-1-1(3) of the Guidelines for Supervision)]

(ii) Employees specified under the FIEA Enforcement Order (compliance manager)

- *1. For each person conducting practical operations, enter the name, position, major operation that the person will conduct, major career information (for the career as a compliance officer or other position in charge of compliance-related operations, enter not only the corporate names but also the relevant departments, operations of which the person is in charge and tenure at each position) and the qualifications held.
A resume (appended form) may be used to describe major career information.
- *2. If the person holds qualification such as the internal control manager, please write the time of acquisition and the specific name of the qualification.
- *3. Please explain the grounds on which you have decided that the person "has sufficient knowledge and experience on compliance operations."
- *4. When you apply for registration of Investment Management Business for Qualified Investors and plan to outsource the compliance operations, please describe the persons in charge at the outsourcing contractor.

Name _____

Position _____

Major business operations _____

Major career information _____

Qualifications held

Sufficiency of knowledge and experience

[Relevant statutory documents: Registration application form Sheet 5, resumes of important employees (Article 9(ii)(a) of the FIB Cabinet Office Ordinance), documents stating the registration applicant's business execution system, such as its personnel structure and the organizational structure pertaining to the business (Article 9(i) of the FIB Cabinet Office Ordinance)]

[Points to be noted: Items to Be Specified in Documents Prescribed under Article 9(i) of the FIB Cabinet Office Ordinance. (Documents Specifying Framework for Business Execution Such as Staffing and Organization) (VI-3-1-1(3) and VI-3-1-2(5) of the Guidelines for Supervision)]

(2) Allocation of operations (attach a seating chart.)

- *1. Here, regarding business operations at your company, please give a specific explanation on "whether systems have been established for operations listed in (i) through (xv) below (for items in the Guidelines for Supervision, see the appended list) (department in charge, names of the responsible persons, and number of persons in charge)," "how the operations will be conducted under such systems (among others, which department, based on which internal rule, which operation,

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when and how to conduct).

(Ex.) XX department conducts the operation of verification of XX based on the XX Rule. Management of XX, which may be a major risk, is specified in Article X of XX Rule.

- *2. When outsourcing an operation, clearly indicate the outsourcing contractor and describe the person in charge of supervising the contractor.

[Relevant statutory document: Rules on Division of Duties (Article 8(iii) of the FIB Cabinet Office Ordinance)]

[Points to be noted: Items Regarding Examination of Staffing Level (VI-3-1-1(1)(i)(F) and VI-3-1-2(2)(iii) and (3) of the Guidelines for Supervision)

(i) Compilation and management of account books and reports

Department in charge:

Responsible person:

Number of staff members in charge:

Description:

(ii) Disclosure

Department in charge:

Responsible person:

Number of staff members in charge:

Description:

(iii) Segregated management of investment assets

Department in charge:

Responsible person:

Number of staff members in charge:

Description:

(iv) Risk management

Department in charge:

Responsible person:

Number of staff members in charge:

Description:

*Please give a detailed explanation on investment risk management.

(v) Computer system management

Department in charge:

Responsible person:

Number of staff members in charge:

Description:

(vi) Trading management and customer management by relevant management divisions

Department in charge:

Responsible person:

Number of staff members in charge:

Description:

* Please explain in detail the method of customer management to prevent violations of laws and regulations including customer information management, the principle of suitability and the uninvited solicitation.

For the management structure from the perspective of personal information protection, please enter your explanation in the subsequent "(ix) Customer information management" column.

(vii) Management of sensitive corporate information

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Department in charge:
Responsible person:
Number of staff members in charge:
Description:

(viii) Advertisement screening

Department in charge:
Responsible person:
Number of staff members in charge:
Description:

(ix) Customer information management

Department in charge:
Responsible person:
Number of staff members in charge:
Description:

(x) Processing of complaints and disputes

Department in charge:
Responsible person:
Number of staff members in charge:
Description:

*Please give a detailed explanation on the method of processing complaints.

(xi) Execution of asset management business by the investment division

Department in charge:
Responsible person:
Number of staff members in charge:
Description:

(xii) Internal audits

Department in charge:
Responsible person:
Number of staff members in charge:
Description:

*Please describe the flow of procedures from preparing an internal audit plan to obtaining internal approval thereof, the specific frequency of implementing internal audits, your processes for improvement measures in response to the internal audit results.

(xiii) Accounting and screening related to investment trust assets in the case of management of investment trust assets

Department in charge:
Responsible person:
Number of staff members in charge:
Description:

(xiv) Training for officers and employees

Department in charge:
Responsible person:
Number of staff members in charge:
Description:

*Please explain what kind of training programs will be planned and implemented for officers and employees to enable them understand the Financial Instruments and Exchange Act and other laws and regulations, and properly conduct Financial Instruments Business.

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(xv) Presence of external audits

Yes / No

Outsourcing contractor:

*Please explain your processes for improvement measures in response to the external audit results.

5. Complaint processing measures and dispute resolution measures related to financial ADR

*Please explain specific ADR measures planned.

- Complaint processing measures:
- Dispute resolution measures:

[Relevant statutory documents: Registration application form Sheet 2, systems for handling complaints (Article 8(v) of the FIB Cabinet Office Ordinance)]

6. Types of other businesses you conduct

- *1. If you hold a license, permission or registration, or you made a notification, enter the number thereof for each business type.
For any business subject to notification obligation, please specify the relevant provisions.
- *2. In the case of conducting multiple businesses, please enter the percentage of each business (ratios expected after registration).
- *3. In the case of conducting any of the businesses specified in Article 35 of the Act, please enter the scope of the business.

Application for approval under Article 35(4) of the Act may also be required simultaneously with submission of registration application depending on the type of business. So please notify the competent authority of the presence of applicable business as early as possible.

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[Relevant statutory documents: Registration application form Sheet 10, description and methods of business (Article 8(ii) of the FIB Cabinet Office Ordinance)]

7. Financial condition

- * Please attach a document showing the most recent financial results (or a forecast for the financial results of the current period).
(Please submit a balance sheet and a profit and loss statement including related notes. If your company has not reached an first account closing since it was established, please submit a forecast for financial results.)

[Relevant statutory documents: Last balance sheet and profit & loss statement (Article 10(i) of the FIB Cabinet Office Ordinance)]

8. Special notes (such as changes in officers)

- *Please write any special notes if there is any.

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Registration Entry Sheet

- (1) Registration number: Director-general, ●● Local Finance Bureau (FIBO) No. (entry not required)
- (2) Registration date: (entry not required)
- (3) Corporation/Individual: Corporation ▪ Individual
- (4) Company name/Trade name: _____

- (5) Company name/Trade name (in hiragana): _____
(Enter first three characters of the company name in hiragana)
- (6) Location of head office: _____

- (7) Telephone: _____ — —
- (8) Email address of person in charge: _____
- (9) Business affiliation: Securities ▪ Bank ▪ Insurance ▪ Foreign-based corporation
Foreign corporation ▪ Other corporation ▪ Independent corporation ▪ Individual
- (10) Amount of capital: _____
- (11) Account closing month: _____
- (12) Name of proxy: _____
- (13) Proxy contact: _____

Telephone _____

- (14) Emergency contact (Telephone number of representative in an emergency or natural disaster)

Name of representative _____

Telephone _____ — —

Mobile phone _____ — —

Trade names in English

Example

Lettering in Japanese

住 所 〒100-0013 東京都千代田区霞ヶ関 3-1-1
商 号 金融庁アセットマネジメント株式会社

Lettering in English

Address: 3-1-1 Kasumigaseki, Chiyoda-ku, Tokyo 100-0013
Trade name: Kinyucho Asset Management Co., Ltd.

※ If the English name is determined in the articles of incorporation, enter such English name.

Japanese

Address: _____

Trade name: _____

English

Address: _____

Trade name: _____

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Appendix to questionnaire form (for Investment Management Business [xxxxx business Note to officials: Select applicable form(s) from the following 1 through 6 and send it to applicants.]])

As stated in the Guidelines for Supervision, any person conducting an Investment Management Business must ensure sound and proper business operations. Therefore, at the time of the application, we would like to have an overview of the status of the person conducting an Investment Management Business including the environment for business execution and internal control systems. So please provide a specific description for each of the items below, along with attachment documents as necessary.

- *1. You may skip entries on this appendix for items for which you have written in the main body of this Summary.

In such case, please write in the "Outline of the Company response" column of the relevant items below, for example, as follows:

→ ***"Written in 3. Description and methods of business, (2) Methods of business, (iii) Investment management"***

In addition, put "Not applicable." for any item that is not applicable to you.

- *2. While the items below are exclusively relevant to Investment Management Business, you may be requested to respond to additional matters picked up from the Guidelines for Supervision (general matters).

1. Discretionary investment business (Article 2(8)(xii)(b) of the Act)

Control Environment for Business Execution (VI-2-2-1(1) and (2) of Guidelines for Supervision)

Control Environment for Customer Solicitation and Explanations (VI-2-2-2(1) through (3) of Guidelines for Supervision)

Duty of Loyalty and Measures to Prevent Internal Collusion (VI-2-2-3(1) through (3) of Guidelines for Supervision)

Selection of Agency/Brokerage Service Providers (VI-2-2-4-1(1) of Guidelines for Supervision)

Measures Taken by Primary Business Operators to Ensure the Appropriateness of Agency/Brokerage Service Providers (VI-2-2-4-2(1) through (4) of Guidelines for Supervision)

Other Points of Attention (VI-2-2-5(1) through (3) and (6) of Guidelines for Supervision)

2. Investment trust management business, etc. (Article 2(8)(xii) (a) or (xiv) of the same paragraph)

Control Environment for Business Execution (VI-2-3-1(1) and (2) of Guidelines for Supervision)

Control Environment for Customer Solicitation and Explanations for Beneficiaries, etc. (VI-2-3-2(1) and (2) of Guidelines for Supervision)

Duty of Loyalty and Measures to Prevent Internal Collusion (VI-2-3-3(1) through (3) of Guidelines for Supervision)

Business Continuity Management (BCM) (VI-2-3-4(2) of Guidelines for Supervision)

Other Points of Attention (VI-2-3-5 of Guidelines for Supervision) (VI-2-2-5(2) and (3) of Guidelines for Supervision)

3. Foreign investment trust management business

Control Environment for Business Execution (VI-2-3-1(1) and (2) of Guidelines for Supervision)

Control Environment for Customer Solicitation and Explanations for beneficiaries, etc. (VI-2-3-2(1) of Guidelines for Supervision)

Duty of Loyalty and Measures to Prevent Internal Collusion (VI-2-3-3(1) through (3) of Guidelines for Supervision)

Other Points of Attention (VI-2-3-5 of Guidelines for Supervision) (VI-2-2-5(2) and (3) of Guidelines for Supervision)

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4. Fund management business (Article 2(8)(xv) of the Act)
 - Control Environment for Business Execution (VI-2-5-1(1) and (2) of Guidelines for Supervision)
 - Control Environment for Customer Solicitation and Explanations (VI-2-5-2(1) and (2) of Guidelines for Supervision)
 - Duty of Loyalty and Measures to Prevent Internal Collusion (VI-2-5-3(1) through (3) of Guidelines for Supervision)
 - Other Points of Attention (VI-2-5-4 of Guidelines for Supervision) (VI-2-2-5(2) and (3) of Guidelines for Supervision)
5. In addition to the above, if you fall under the real estate-related fund management company, also answer the following items.
 - Control Environment for Legal Compliance (VI-2-6-1 of Guidelines for Supervision)
 - Internal Control Environment (VI-2-6-2 of Guidelines for Supervision)
 - Evaluation Items Concerning Operations of Real Estate-related Fund Management Companies (VI-2-6-3(1) through (5) of Guidelines for Supervision)

6. In addition to the above, if you fall under the Investment Management Business for Qualified Investors, also answer the following items.
 - Control Environment for Business Execution (VI-2-7-1(1) and (2), VI-3-1-2(2) of Guidelines for Supervision)
 - Measures concerning Management of the Total Amount of All Investment Assets (VI-3-1-2(3)(i))
 - Measures concerning Management of Rights Holders (VI-3-1-2(3)(ii))
 - Measures to be Taken in case of Conducting Specially Permitted Business for Qualified Institutional Investors, etc. or Other Certain Business (VI-3-1-2(3)(iii))

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1. Discretionary investment business

Control Environment for Business Execution (the Guidelines for Supervision VI-2-2-1(1) and (2))

Guidelines for Supervision	Outline of the company response	Applicable internal rule
(1) Investment and Administration of Investment Assets Supervisors shall examine whether a discretionary investment business operator is properly investing and administering investment assets, by paying attention to the following points. It should be noted that the following points should be taken into consideration in a comprehensive manner in light of the nature and size of the business operator's business, and that failure to meet some of the criteria should not automatically be deemed to mean that the investment of investment assets is inappropriate	—	—
(i) Whether the discretionary investment business operator has properly specified the matters regarding internal organization that decide its investment policy (including a specific decision-making process).		
(ii) Whether the discretionary investment business operator has prescribed a specific investment method for investment of investment assets (as specified under Article 35(1)(xv) of the FIEA; the same shall apply hereinafter) by the investment division		
(iii) Whether the discretionary investment business operator has developed an appropriate control environment for the management of securities transactions between various investment assets and between investment assets and its own assets or third-party assets.		
(iv) In cases where the discretionary investment business operator entrusts all or part of the authority over the investment made on behalf of rights holders (as specified under Article 42(1) of the FIEA; the same shall apply hereinafter) to another entity under Article 42-3 of the FIEA (including cases where the entrusted entity entrusts part of the authority to yet another entity), whether the discretionary investment business operator has properly established the criteria for selecting the entity to which the authority is entrusted and the method of communications therewith. Whether the discretionary investment business operator has developed a control environment for		

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continuously examining the entrusted entity's business execution capability and its compliance with contract provisions. Whether it has specified measures to be taken when a problem is found in the entrusted entity's business execution capability (e.g., providing guidance for business improvement and refusing to renew the entrustment contract).		
(v) Regarding the selection of the entities to which orders are placed and business operations are entrusted, whether the discretionary investment business operator has properly specified the matters concerning the entities' transaction execution capability, the control environment for legal compliance, credit risk and trading costs as items that should be taken into consideration.		
(vi) Whether the discretionary investment business operator has arrangements and procedures for a division independent from the investment division to periodically examine whether investment assets are properly managed, including whether the investment decision process is appropriate, in accordance with the discretionary investment contract and the investment guideline (including whether records on the investment status are stored).		
(vii) In cases where rights holders (excluding specified investors; the same shall apply to (vii) through (ix)) entrust investment assets to a trust company, etc., and investment is made in subject securities (as specified under Article 130(3) of the FIB Cabinet Office Ordinance; the same shall apply to (vii) through (ix)), whether the discretionary investment business operator has developed an appropriate control environment to ensure that (i) an arrangement to enable the trust company, etc., to directly receive a notice on the value of the subject securities from a person who computes the value, or (ii) an arrangement to enable the trust company, etc., to directly ask a person who computes the value to assess the value of subject securities, is taken as the arrangement necessary for the trust company, etc., to know the true value of the subject securities. Whether the discretionary investment business operator has periodically checked, even after having invested in the subject securities, that the above-mentioned arrangements are in place.		
(viii) In cases where rights holders entrust investment assets to a trust company, etc., and investment is made in subject		

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<p>securities, whether the discretionary investment business operator has developed an appropriate control environment to ensure that a fund audit (as specified under Article 130(4) of the FIB Cabinet Office Ordinance; the same shall apply hereinafter) is conducted for the assets invested or contributed from a person having rights to the subject securities. Whether the discretionary investment business operator has periodically checked, even after having invested in the subject securities, that the above-mentioned fund audit is conducted. In a case where the discretionary investment business operator is involved in the appointment of an external auditor in charge of the fund audit, whether the discretionary investment business operator has made efforts to ensure that the fund audit is independent and effective.</p>		
<p>(ix) In cases where rights holders entrust investment assets to a trust company, etc., and investment is made in subject securities, whether the discretionary investment business operator has developed an appropriate control environment to ensure that necessary arrangements are made to enable the trust company, etc., to receive a true audit report, etc., on the fund audit. Whether the discretionary investment business operator has periodically checked, even after having invested in the subject securities, that the above-mentioned arrangements are in place.</p>		
<p>(2) Execution of Transactions When discretionary investment business operators execute transactions, they are required to select the transaction form that benefits customers most, by taking into consideration the transaction price and other execution costs in a comprehensive manner. In light of the increasing diversification of the transaction forms due to the advance of financial techniques, supervisors shall examine the status of a discretionary investment business operator's transaction execution by paying attention to the following points, for example:</p>	—	—
<p>(i) At-Average-Price Transaction (transaction made at the average of prices of various orders of the same transaction and delivery dates, aggregated by issue and order category (sell or purchase))) A. Separation of Divisions Whether the discretionary</p>		

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<p>investment business operator has separate divisions for making investment divisions and for taking orders. In cases where organizational separation is difficult, whether, at the minimum, different persons are responsible for these two tasks.</p> <p>B. Examination of Transactions Whether the discretionary investment business operator has a control environment for ensuring that a relevant management division, for example, examines the whole range of business processes related to at-average-price transactions.</p> <p>C. Disclosure to Customers and Consent Thereof Whether the discretionary investment business operator makes at-average-price transactions after making prior disclosure to customers and obtaining their consent. In cases where the discretionary investment business operator places orders involving the proportional allocation of executed transactions with regard to two or more investment asset accounts, whether it provides customers with appropriate explanations regarding the criteria for allocation in the case of the total executed transaction volume falling short of the total order volume.</p>		
<p>(ii) Transactions Made via Bulk Orders In cases where the discretionary investment business operator places a bulk sell or buy order for the same issue on behalf of two or more investment asset accounts, and allocates executed transactions to each asset account based on the allocation criteria prescribed by the business operator after aggregating the transactions by issue and by buy/sell order, whether it has developed a control environment similar to the one described in (i) above, from the viewpoint of ensuring fairness among customers.</p>		
<p>(iii) Transactions Made between Investment Asset Accounts Transactions made between investment asset accounts are in principle prohibited because there is a risk that investors in one of the funds involved in the transactions may receive unfavorable treatment and that such transactions may be utilized in acts that go against investor protection such as transfers of profits between funds. On the other hand, of transactions specified under Article 129(1)(i) of the FIB</p>		

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<p>Cabinet Office Ordinance, if a transaction between investment assets accounts falls under a case where the prohibition of transactions between investment assets accounts does not apply, the relevant management division is required to be adequately prepared to verify that the transactions meet the requirements in (a) and (b) of Article 129(1)(i).</p> <p>The "case where it is deemed to be necessary and rational," as specified by Article 129(1)(i)(a)(4) of the FIB Cabinet Office Ordinance, is a case in which transactions between investment assets accounts executed by fund management companies meet the need to ensure fairness among customers and to fulfill its duties of best execution and loyalty to customers, and this applies to transactions in which relevant "sell" or "buy" decisions by each of the funds are deemed necessary and rational, and that are executed in the best possible manner for the investment decisions made thus (or the each of transactions executed to follow the best execution practice results in transactions between investment assets accounts).</p> <p>In determining whether there is necessity and rationality, factors such as the investment policy of the funds involved (including in-house investment limits introduced (for the purpose of risk management, etc.) by the investment business operators, inflow or outflow of money associated with cancellation/formation of funds (including whether there is a need to sell or buy assets in order to maintain the portfolios of each funds, etc.), etc. are considered.</p> <p>On the other hand, from the viewpoint of best execution practice, factors such as transaction costs, mitigation of market impact, etc. are considered in addition to transaction prices.</p> <p>From the above viewpoints, such transactions as listed below are considered as ones in which fairness among funds and fair price formation are ensured and as constituting a "case where it is deemed to be necessary and rational." (It must be noted, however, that these are shown only as examples and not the only ones that qualify.)</p> <p>A. To have traders execute transactions based on investment decisions made by several fund managers (limited to transactions regarding which there is not the risk of the price formation process being distorted in light of liquidity and other factors related to the relevant issue and, in cases</p>		
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<p>where the transactions are executed by the same trader, transactions of which the trader has no discretion over execution).</p> <p>B. To place both market buy and sell orders before the market's opening (limited to orders which have no risk of distorting the price formation process in light of liquidity and other factors related to the relevant issue).</p> <p>C. To place both buy and sell orders in intraday trading at a reasonable intervals (limited to orders which have no risk of distorting the price formation process in light of liquidity and other factors related to the relevant issue).</p> <p>D. To make transactions related to index funds executed through program trading based on contracts and trust contract provisions (limited to transactions which have no risk of distorting the price formation process in light of liquidity and other factors related to the relevant issue).</p> <p>E. To make VWAP transactions and discretionary transactions, regarding which the decision on the timing of order placement, price and other execution terms related to individual issues are entrusted by the fund management company to a third-party entity (limited to transactions which have no risk of distorting the price formation process in light of liquidity and other factors related to the relevant issue).</p> <p>F. To make futures transactions, regarding which it is difficult to avoid the placement of orders for the same issue because of the small number of issues available for futures trading (limited to transactions which have no risk of distorting the price formation process in light of liquidity and other factors related to the relevant issue).</p>		
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Control Environment for Customer Solicitation and Explanations (the Guidelines for Supervision VI-2-2-2(1) to (3))

Guidelines for Supervision	Outline of the company response	Applicable internal rule
(1) Prohibition of Advertisements Using Exaggerated Descriptions	—	—
(i) Whether the Financial Instruments Business Operator includes in its advertisements descriptions indicating that the performance, contents and method of its investment are markedly		

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superior to those of other Financial Instruments Business Operators without providing the basis therefor.		
(ii) When including investment performance data in its advertisement, whether the Financial Instruments Business Operator uses descriptions that could cause misunderstanding by investors, by putting excessive emphasis on specific parts of the performance. (When investment performance data is included in an advertisement, appropriate and easy-to-understand descriptions must be made, from the viewpoint of protecting investors. For example, it is necessary to examine whether the advertisement specifies the method of investment evaluation and the basis for the use of benchmarks and properly expresses that the investment performance data is an indicator that concerns past results but does not promise future performance.)		
(iii) When including investment simulation in its advertisement, whether the Financial Instruments Business Operator uses descriptions that could cause misunderstanding by investors, by setting arbitrary assumptions, for example. (When investment simulation is included in an advertisement, appropriate and easy-to-understand descriptions must be used, from the viewpoint of protecting investors. For example, it is necessary to examine whether the advertisement specifies the basis for the use of assumptions in the simulation and properly indicates that the simulation is based on prescribed assumptions and does not promise future investment performance.)		
(2) Points of Attention Regarding Provision of Pre-Contract Documents	—	—
(i) In cases where a discretionary investment business operator concurrently undertakes services unrelated to discretionary investment business and where it receives remuneration related to discretionary investment business and fees related to other services collectively under the same contract, the business operator must separately specify the remuneration related to discretionary investment business and the fees related to other services with regard to the “matters concerning fees, remuneration or any other consideration payable by the customer with regard to said Contract for Financial Instruments Transaction,” as specified under Article 37-3(1)(iv) of the FIEA.		
(ii) The “methods of investment and types of		

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<p>transactions,” as specified under Article 96(1)(i) of the FIB Cabinet Office Ordinance, include specific investment methods (including the individual investment method, the common investment method (under which several customers’ assets are invested in the same way with regard to specific securities and the timing of sales and purchases and are administered on a customer-by-customer basis by the same asset administration organization; the same shall apply hereinafter) and the joint investment method (under which several customers’ assets are jointly invested and jointly administered; the same shall apply hereinafter)) and also include the following items in the case of common investment and joint investment:</p> <p>A. In the case of common investment</p> <ol style="list-style-type: none"> a. Items regarding the asset administration organization in charge of common investment assets. b. Items regarding the criteria for the allocation of assets acquired through the common investment <p>B. In the case of joint investment</p> <ol style="list-style-type: none"> a. Customers’ attributes and types of customer assets and items regarding the criteria for joint investment b. Items regarding the asset administration organization in charge of joint investment assets c. Items regarding the criteria for the allocation of assets acquired through the joint investment d. Items regarding the evaluation method of joint investment assets and the calculation method of each customer’s interests in the assets (including cases where assets are withdrawn from the joint investment prematurely). 		
<p>(iii)The “items regarding the scope of discretionary investment decisions and the implementation of investment,” as specified under Article 96(1)(iii) of the FIB Cabinet Office Ordinance, include the trade names, addresses, the names of the representative of the business operators specified under each item of Article 16-12 of the FIEA Enforcement Order (hereinafter referred to as “re-entrusted entity”) as well as the scope of re-entrustment.</p>		
<p>(iv)The “external audit of business operations related to financing or discretionary investment contracts” as specified under Article 96(1)(vi) of the FIB Cabinet Office</p>		

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<p>Ordinance includes the following (including the equivalent thereof):</p> <ul style="list-style-type: none"> - Audit certification pursuant to Article 193-2 (1) of the FIEA (“audit of financial statements” in VI-3-2-3 (1) (iv)) and audit certification pursuant to Article 193-2 (2) of the FIEA (“audit of internal control” in VI-3-2-3 (1) (iv)); - Audit by an accounting auditor under the Companies Act; - Assurance engagements on internal controls of outsources (assurance engagements on internal controls in VI-3-2-3 (1) (iv)) in accordance with the standards, including the Audit and Assurance Practice Committee Practical Guidelines No.86, the “assurance report on internal control of entrusted business” (JICPA), the Statement on Standards for Attestation Engagements (SSAE) No.16 “Reporting on Controls at a Service Organization” (AICPA), the International Standard on Assurance Engagements (ISAE) No.3402 “Assurance Reports on Controls at a Service Organization” (IAASB); and - Examination of whether the performance disclosure information of asset management companies conforms to the Global Investment Performance Standards (GIPS). 		
<p>(v) As for the “capital relationship between the financial instruments business operator, etc., and the fund-related persons” as specified under Article 96(2)(iii) of the FIB Cabinet Office Ordinance, if the fund-related person is the parent corporation, etc., (as specified under Article 1(3)(xiv) of the FIB Cabinet Office Ordinance) of the financial instruments business operator, etc., a subsidiary corporation, etc., (as specified under Article 1(3)(xvi) of the FIB Cabinet Office Ordinance) of the financial instruments business operator, etc., or a related foreign corporation, etc., (as specified under Article 126 (iii) of the FIB Cabinet Office Ordinance) of the financial instruments business operator, etc., such fact must be entered.</p>		
<p>(vi) As for the “personal relationship between the financial instruments business operator, etc., and the fund-related persons” as specified under Article 96(2)(iii) of the FIB Cabinet Office Ordinance, the conditions of concurrent holding of positions by officers or employees at a specific time which is deemed to be reasonable must be entered.</p>		
<p>(3) Points of Attention Regarding the Provision of Documents at Contract</p>	<p align="center">—</p>	<p align="center">—</p>

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Signing		
(i) In the case of joint investment, the “contents and amounts of customers’ assets related to discretionary investment contracts,” as specified under Article 107(1)(vi) of the FIB Cabinet Office Ordinance, include the total amount of joint investment assets at the time of the start of the joint investment and the shares of the relevant customers’ assets in the joint investment assets.		
(ii) The “methods of investment and types of transactions,” as specified under Article 107(1)(viii) of the FIB Cabinet Office Ordinance, include specific investment methods (including the individual investment method, the common investment method and the joint investment method) and also include the following items in the case of common investment and joint investment: A. In the case of common investment a. Items regarding the asset administration organization in charge of common investment assets b. Items regarding the criteria for the allocation of assets acquired through the common investment B. In the case of joint investment a. Items regarding the size of joint investment assets b. Customers’ attributes and types of customer assets and items regarding the criteria for joint investment c. Items regarding the asset administration organization in charge of joint investment assets d. Items regarding the criteria for the allocation of assets acquired through the joint investment e. Items regarding the evaluation method of joint investment assets and the calculation method of each customer’s interests in the assets (including cases where assets are withdrawn from the joint investment prematurely).		
(iii) The “methods of investment and types of transactions,” as specified under Article 107(1)(viii) of the FIB Cabinet Office Ordinance, include re-entrusted entities’ methods of investment and types of transaction.		

Duty of Loyalty and Measures to Prevent Internal Collusion (the Guidelines for Supervision VI-2-2-3(1) to (3))

Guidelines for Supervision	Outline of the company response	Applicable
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		internal rule
<p>(1) Points of Attention Regarding Discretionary Investment Business Operators Engaging in Two or More Types of Business</p> <p>When supervisors examine the appropriateness of measures taken by a discretionary investment business operator engaging in two or more types of business (as specified under Article 29-2(1)(v) of the FIEA) to prevent internal collusion, they shall pay attention to the following points, for example, depending on the nature of its business, from the viewpoint of preventing conflicts of interests and ensuring the appropriateness of business operations in other ways.</p>	—	—
<p>(i) Whether the discretionary investment business operator has taken appropriate measures to prevent collusion between its different types of business, such as establishing an internal control system and procedures for the prevention of such collusion in a manner suited to the nature of its business.</p>		
<p>(ii) Regarding the “non-disclosure information,” as specified under Article 147(ii) of the FIB Cabinet Office Ordinance, whether the discretionary investment business operator has put in place information management measures, such as the appointment of the relevant manager and the establishment of management rules, and ensures the effectiveness of information management by, for example, properly identifying and examining the status of the usage of the non-disclosure information and revising the management method as necessary.</p>		
<p>(2) Points of Attention Regarding Prevention of Conflicts of Interests in Investment Management Business</p>	—	—
<p>Whether appropriate measures have been taken to prevent practices that could promote the interests of specific rights holders at the expense of other rights holders, such as establishing an internal control system and procedures for the prevention of collusion between different types of business in a manner suited to the nature of the business.</p>		
<p>(3) Duty of Loyalty to Rights Holders</p>	—	—
<p>It should be kept in mind that if a discretionary investment business operator causes financial damage to a beneficiary due to a clerical error involved in the investment of investment assets and fails to compensate for the damage, it could constitute a violation of the duty of loyalty.</p>		

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The same shall apply to cases where the clerical error occurs at an entity to which business operations are entrusted and where the discretionary investment business operator which has the obligation of duty to the beneficiary fails to compensate for the damage.		
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Selection of Agency/Brokerage Service Providers (the Guidelines for Supervision VI-2-2-4-1(1))

Guidelines for Supervision	Outline of the company response	Applicable internal rule
(1) Points of Attention Regarding Selection of Agency/Brokerage Service Providers	—	—
(i) When signing contracts for entrusting agency/brokerage services, whether the discretionary investment business operator specifies the significance of the entrustment in relation to governance, identifies the various risks involved therein and conducts sufficient deliberations on the method of risk management.		
(ii) Whether the discretionary investment business operator conducts sufficient deliberations on whether the agency/brokerage service providers have sufficient qualifications to conduct the entrusted business operations in a sound and appropriate manner. In cases where the agency/brokerage service providers concurrently engage in other services in particular, whether the discretionary investment business operator not only examines the possibility of the nature of the other services damaging public confidence in the service providers, but also conducts sufficient deliberations in consideration of the primary business operator's reputational risk. (The "primary business operator" refers to discretionary investment business operators which sign discretionary investment contracts through agency/brokerage services provided by agency/brokerage service providers; the same shall apply in VI.)		

Measures Taken by Primary Business Operator to Ensure the Appropriateness of Agency/Brokerage Service Providers (the Guidelines for Supervision VI-2-2-4-2(1) to (4))

Guidelines for Supervision	Outline of the company response	Applicable internal rule
(1) Development of Internal Control Environment for Supervising Agency/Brokerage Service Providers	—	—
(i) Whether the primary business operator		

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has developed a control environment for ensuring appropriate supervision of agency/brokerage service providers, through actions such as establishing a division responsible for the implementation of measures to ensure the sound and appropriate conduct of business operations related to agency/brokerage services, or appointing a person responsible therefor (including a control environment regarding audits of the business operations of agency/brokerage service providers).		
(ii) Whether the primary business operator has developed an internal control environment for examining whether the said division or person has taken proper measures to ensure the appropriateness of the business operations related to the agency/brokerage services.		
(2) Points of Attention Regarding Measures to Ensure Necessary and Appropriate Supervision of Agency/Brokerage Service Providers	—	—
<p>(i) Whether the primary business operator has taken the following measures in order to ensure the sound and appropriate conduct of business operations related to agency/brokerage services and monitors the status of the conduct of the business operations:</p> <p>A. To provide guidance regarding business operations related to agency/brokerage services to brokerage service providers and their employees and implement training programs intended to ensure their compliance with laws and regulations regarding the agency/brokerage services.</p> <p>B. To implement measures to ensure the necessary and appropriate supervision of agency/brokerage service providers, such as examining periodically or as necessary whether the service providers properly conduct the services, including investment solicitation and requiring them to make improvement when necessary.</p>		
(ii) Whether the primary business operator has developed a control environment that ensures the results of the above monitoring are examined by the primary business operator's division in charge and reported to the management team when necessary, so that they are reflected in the provision of appropriate guidance by the primary business operator and in the conduct of business		

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operations by agency/brokerage service providers.		
(3) Measures to Cancel Contracts for Entrusting Agency/Brokerage Services	—	—
Whether the primary business operator has developed a control environment for implementing appropriate measures, such as providing guidance to agency/brokerage service providers and canceling contracts for entrusting agency/brokerage services, when a problem has been found as a result of the monitoring of agency/brokerage service providers. In addition, whether it has developed a control environment for properly protecting customers when canceling the entrustment contracts.		
(4) Measures to Process Complaints	—	—
Whether the primary business operator has established arrangements and procedures for responding to complaints, such as specifying the contact point for customer complaints regarding agency/brokerage services, establishing a division in charge of processing complaints and prescribing procedures for processing complaints.		

Other Points of Attention (the Guidelines for Supervision VI-2-2-5(1) to (3) and (6))

Guidelines for Supervision	Outline of the company response	Applicable internal rule
(1) Accounts for Settlement of Transactions	—	—
(i) It should be kept in mind that regarding transactions made on their own account, discretionary investment business operators must not use an account intended for the settlement of transactions that was made through the activities specified under the proviso of Article 42-5 of the FIEA.		
(ii) It should be kept in mind that discretionary investment business operators' use of the said account for placing orders covering both transactions related to investment based on investment decisions commissioned by customers and transactions made on their own account is equivalent to the "use of the relevant account for purposes other than the settlement of the relevant transaction" specified under Article 130(1)(xi) of the FIB Cabinet Office Ordinance.		
(2) Points to consider in the reinvestment of cash collateral When a discretionary investment business operator who is the	—	—

<p>securities lender (and/or its agent) reinvest the cash collateral received in securities lending transactions with collateral, the business operator shall pay attention to the following points only if the said cash collateral reinvested are managed with leverage, in accordance with the Recommendation 6 of the "Strengthening Oversight and Regulation of Shadow Banking: Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos" published by the FSB (Financial Stability Board) in August 2013.</p>		
<p>(i) High-level principles</p> <p>A Whether the discretionary investment business operator, in developing its cash collateral reinvestment strategy and investment guidelines, takes into account the possibility that the cash collateral could be recalled at any time by the party that borrowed securities, considers whether the business operator holds assets that are sufficiently liquid to meet reasonably foreseeable recalls of cash collateral, and takes measures to manage the associated liquidity risk.</p> <p>B Whether securities lending cash collateral reinvestment is conducted with one of the primary objectives being capital preservation. In particular, whether cash collateral reinvestment guidelines take into account whether unexpectedly large requests for returning cash collateral could be met if the market for the assets in which the cash collateral has been reinvested became illiquid and liquidating the assets would result in a loss.</p> <p>C Whether cash collateral reinvestment is consistent with the stated and approved investment policy of the discretionary investment business operator as a securities lender, so as not to add substantial incremental risk to the firm's risk profile. In developing and approving cash collateral reinvestment guidelines, whether the discretionary investment business operator takes into account the size of this activity relative to the business operator overall.</p> <p>D Whether investment guidelines (and subsequent modifications) for securities lending cash collateral reinvestment are formally</p>		

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<p>documented and communicated to beneficial owners.</p> <p>E Whether the discretionary investment business operator explicitly approves, formally documents and regularly reviews investment guidelines that govern cash collateral reinvestment. Whether the guidelines comply with these high-level principles. Whether the discretionary investment business operator as a lending agent ensures that all its clients have such guidelines.</p> <p>F Whether assets the discretionary investment business operator holds to meet cash collateral calls are highly liquid with transparent pricing so that they can be valued at least on a daily basis and sold, if needed, at a price close to their pre-sale valuation.</p>		
<p>(ii) Liquidity, credit, and other risks</p> <p>A Whether the discretionary investment business operator pays attention to the following points in reinvesting cash collateral.</p> <ul style="list-style-type: none"> a. whether taking measures to limit the potential for maturity mismatch. b. whether holding assets that are sufficiently liquid and low risk to meet reasonably foreseeable demands for cash collateral redemption, together with a buffer to guard against stress scenarios. c. whether developing an appropriate risk management structure consistent with the cash collateral reinvestment guidelines. <p>B Whether the following requirements for the cash collateral reinvestment portfolio and/or liquidity pool maintained to meet cash collateral recalls are set and continuously complied.</p> <ul style="list-style-type: none"> a. Whether a minimum portion of the cash collateral is set for the following portfolio that can be readily converted to cash over short time horizons, such as one day and one week, to meet potential recalls of cash collateral: <ul style="list-style-type: none"> - Short-term deposits (with high-quality financial institutions), - Highly liquid short-term assets (such as high quality government treasury bills and bonds), and - Short tenor transaction (such as overnight or open reverse repos backed by highly liquid assets). b. Whether the discretionary investment business operator sets 		

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<p>specific limits for the weighted average maturity (WAM) and/or weighted average life (WAL) of the portfolio in which the cash collateral is reinvested.</p> <p>c. Whether the discretionary investment business operator sets maximum limits for the remaining term to maturity for any single investment in which the cash collateral is reinvested, which could vary by asset class based on the liquidity of the instruments.</p>		
<p>(iii) Stress test</p> <p>A Whether the discretionary investment business operator stress tests its ability to meet foreseeable and unexpected calls for the return of cash collateral on an ongoing basis.</p> <p>B Whether these stress tests stated in (i) above include an assessment of the business operator's ability to liquidate part or the entire reinvestment portfolio under a range of stressed market scenarios, including:</p> <ul style="list-style-type: none"> a. interest rate changes, b. higher cash collateral recalls from securities borrowers, c. higher redemptions by investors in the funds being lent, and d. changes in the credit quality of the portfolio in which the cash collateral is reinvested. 		
<p>(iv) Disclosure</p> <p>A Whether the discretionary investment business operator as an agent securities lender frequently discloses to their clients (the beneficial owners of securities) the composition and valuation of their portfolio of securities on loan and their cash collateral reinvestment portfolio.</p> <p>B Whether the disclosure stated in (i) above includes, at a minimum, the following items:</p> <ul style="list-style-type: none"> a. the percentage of assets held in cash or cash equivalents over a one day and one week liquidation horizon; b. the WAM and WAL of the portfolio in which the cash collateral is reinvested; c. the maximum remaining term to maturity of any individual investment; d. the percentage of assets that are held in illiquid securities (and how these are defined); e. the maximum exposure of the fund being lent to the following items: 		

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<ul style="list-style-type: none"> - individual security, - issuer, and - asset type; f. the split between secured and unsecured exposures; g. the distribution of collateral received in reverse repo; h. the average yield of the portfolio in which the cash collateral is reinvested; and i. results from liquidity stress tests. 		
<p>(3) Points to consider in repo-type transactions</p> <p>When the discretionary investment business operator engages in the lending and borrowing of securities, or the sale or purchase of securities on condition of repurchase or resale, with collateral (hereinafter referred to as "repo-type transactions") (including cases where the discretionary investment business operator is an agent), whether it establishes internal rules in regard to the assessment and management of collaterals covering the following items, in accordance with the Recommendation 9 of the "Strengthening Oversight and Regulation of Shadow Banking: Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos" published by the FSB (Financial Stability Board) in August 2013.</p>	—	—
<p>(i) Collateral types</p> <p>Whether the discretionary investment business operator, in conducting repo-type transactions, only takes collateral types that they are able following a counterparty failure to:</p> <ul style="list-style-type: none"> A hold for a period without breaching laws or regulations; B value; and C risk manage appropriately. 		
<p>(ii) Contingency plan</p> <ul style="list-style-type: none"> A Whether the discretionary investment business operator has contingency plans for the failure of their largest market counterparties, including in times of market stress. B Whether these plans stated in (i) above include: <ul style="list-style-type: none"> a. how the discretionary investment business operator would manage the collateral following default; and b. the capabilities to liquidate the collateral in an orderly way. 		
<p>(iii) Margin call</p> <ul style="list-style-type: none"> A Whether collateral and lent securities are marked to market at least daily. 		

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<p>B Whether margin calls (referred to as the right to claim a recovery of collateral deficiency resulting from marking-to-market at any time) are made at least daily.</p>		
<p>(6) Points of Attention for Discretionary Investment Contracts under the Provisions of the Employees' Pension Insurance Act</p>	<p align="center">—</p>	<p align="center">—</p>
<p>(i) Considering that a surviving employees' pension fund (refers to the surviving employees' pension fund as prescribed in Article 3, item (xi) of the Supplementary Provisions of the Act for Partial Revision of the Employees' Pension Insurance Act to Ensure the Soundness and Reliability of the Public Pension System (Cabinet Order No. 63 of 2013); the same shall apply hereinafter) as a customer is obligated to make an effort to invest reserves for pension benefits, etc., using methods which are not concentrated on a specific means in accordance with the provisions of Article 39-15 (1) of the Cabinet Order for Employees' Pension Fund prior to abolition pursuant to the provisions of Article 1 of the Cabinet Order Concerning the Coordination, etc. of the Relevant Cabinet Orders Related to the Enforcement of the Act for Partial Revision of the Employees' Pension Insurance Act to Ensure the Soundness and Reliability of the Public Pension System (Cabinet Order No. 73 of 2014) that is deemed to be still in effect in accordance with the provisions of Article 3(2) of the Cabinet Order Concerning Transitional Measures due to the Enforcement of the Act for Partial Revision of the Employees' Pension Insurance Act to Ensure the Soundness and Reliability of the Public Pension System (Cabinet Order No. 74 of 2014) (hereinafter the "duty of investment diversification"), if it is recognized that the surviving employees' pension fund could have not fulfilled their duty of investment diversification, whether the discretionary investment business operator has established an appropriate control environment to give a notice to the surviving employees' pension fund. In the case that the notice is given but there is still a risk of violation of the duty of investment diversification, whether the discretionary investment business operator has had a consultation with the surviving employees' pension fund to ask the fund to examine the change of their investment management guideline, for</p>		

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<p>example. Furthermore, if there is still a risk of violation of the duty of investment diversification even after the consultation, whether the discretionary investment business operator has taken measures, including the examination of cancellation of the discretionary investment contract in the worst case, for example, in order to ensure that the surviving employees' pension fund will fulfill their duty of investment diversification.</p>		
<p>(ii) Whether the discretionary investment business operator understands the knowledge, experience, state of assets of the surviving employees' pension fund, and their purpose of concluding a discretionary investment contract. In a case where an investment management guideline is indicated by the surviving employees' pension fund and it is found necessary, whether the discretionary investment business operator has established an appropriate control environment in which the discretionary investment business operator explains to the surviving employees' pension fund about risks which might occur if investment is made according to the investment management guideline.</p>		
<p>(iii) In a case where a surviving employees' pension fund gives instructions about the management of investment assets (hereinafter the "specific instructions"), such as the acquisition or disposition of specific bonds, stocks, beneficiary securities, etc., in violation of the provision of Article 30(3) of the Cabinet Order for Employees' Pension Fund prior to abolition, whether the discretionary investment business operator has established an appropriate control environment to ensure compliance with Article 130(1)(xiii) of the FIB Cabinet Office Ordinance and informs the surviving employees' pension fund of the inability to follow such instructions, for example. Whether the discretionary investment business operator has established an appropriate control environment to avoid such solicitation of products or explanations which encourage a surviving employees' pension fund to give specific instructions.</p> <p>The following acts don't violate Article 130(1)(xiii) of the FIB Cabinet Office Ordinance:</p> <ul style="list-style-type: none"> - Accept and follow the following instructions from a surviving employees' pension fund: (i) instructions on the acquisition, etc., of 		

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<p>an affiliated fund of the discretionary investment business operator (a founder or manager of the fund is the discretionary investment business operator, a parent corporation, etc., as specified under Article 1(3)(xiv) of the FIB Cabinet Office Ordinance, subsidiary corporation, etc., as specified under item xvi of the same paragraph, or a related foreign corporation, etc., as specified under Article 126(iii) of the same ordinance) (including the case where instructions are clarified in the investment management guideline, contracts, etc.); (ii) instructions to prohibit the acquisition of securities of certain descriptions; and (iii) instructions on the investment management policy, such as limitations of investment ratios for each description of securities or for each industry.</p> <ul style="list-style-type: none"> - In a case where the discretionary investment business operator intends to invest in securities of certain descriptions (subject securities as specified under Article 96(4) of the FIB Cabinet Office Ordinance) based on a discretionary investment contract after having concluded the contract, make a description and an explanation of the securities in pre-contract documents which are delivered to a surviving employees' pension fund when conducting solicitation for a discretionary investment contract. 		
<p>(iv) In a case where the discretionary investment business operator visits a surviving employees' pension fund as customer together with a financial instruments business operator for the purpose of explaining about investment performance, whether the discretionary investment business operator has established an appropriate control environment to ensure that such explanations, etc., at the time of visit will not include solicitation of products, etc., which are structured by the financial instruments business operator and will not encourage the surviving employees' pension fund to give specific instructions.</p>		
<p>(v) With respect to the investment management of reserves for pension benefits, etc., whether the discretionary investment business operator has established an appropriate control environment to ensure that conclusive judgment with respect to an uncertain matter will not be provided to a surviving employees' pension fund, or information</p>		

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which is likely to have a surviving employees' pension fund mistakenly believe an uncertain matter as being certain will not be provided to the surviving employees' pension fund.		
<p>(vi) For the purpose of making persons in charge of important operations concerning fund assets and management thereof comply with requirements for due diligence and continuous monitoring as specified under Article 96(2)(ii) of the FIB Cabinet Office Ordinance, whether the discretionary investment business operator has established, as necessary, an appropriate control environment by which internal rules, operation manuals, etc., incorporating detailed standards or methods are established, and the status of due diligence and the conditions of monitoring are examined by the compliance division and the risk management division.</p> <p>(Note) Discretionary investment business operators are required to make an explanation of risks to surviving employees' pension funds as customers. However, it must be noted that discretionary investment business operators cannot be exempted from a good manager's duty of care simply because they have explained about risks involved.</p>		

2. Investment trust management business, etc.

Control Environment for Business Execution (the Guidelines for Supervision VI-2-3-1(1) and (2))

Guidelines for Supervision	Outline of the company response	Applicable internal rule
<p>(1) Investment and Administration of Investment Assets</p> <p>For the purpose of encouraging medium- to long-term asset building by households in accordance with their stages of life and raising the flow of financial assets from household into growing businesses through financial markets, investment assets, which mediates between them, can play a significant role. As such, it is hoped that investment trust management companies, etc., actively develop and provide products that support stable asset building based on customer needs.</p> <p>With such hopes in mind, supervisors shall examine whether an investment trust management company, etc., is properly managing</p>	—	—

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<p>and administering investment assets, by paying attention to the following points. It should be noted that the following points should be taken into consideration in a comprehensive manner in light of the nature and size of the company's business and that failure to meet some of the criteria should not automatically be deemed to mean that the investment and administration of investment assets are inappropriate.</p>		
<p>(i) Whether the investment trust management company, etc., has properly specified the matters regarding internal organization that decide its investment policy (including a specific decision-making process).</p>		
<p>(ii) Whether the investment trust management company, etc., has prescribed a specific investment method for investment of investment assets by the investment division. Whether the investment management company is making efforts to clearly present information regarding the status of asset management of the relevant investment trust, such as listed below, to beneficiaries, etc., in a manner appropriate to the characteristics of individual investment trust products. Whether the investment management company is making efforts to clearly present information on investment trust products that use a fund-of-funds strategy to beneficiaries, etc., such as providing an overview of the destination funds (e.g. key invested assets) and the net contribution rate that incorporates the asset-management costs of the destination funds, as well as providing financial instruments business operators that sell the investment trust products with information about asset management costs.</p> <p>A. Information about fund managers (e.g. years of experience in managing investment funds, personal history, etc. of the chief fund manager, overview of management team, etc.)</p> <p>B. Process of investment decision making in putting the basic investment policy into actual operation</p>		
<p>(iii) Whether the investment trust management company, etc., has developed an appropriate control environment regarding the management of securities transactions between various investment assets and between</p>		

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investment assets and its own assets or third-party assets.		
(iv) In cases where the investment trust management company entrusts all or part of the authority over the investment made on behalf of rights holders to another entity under Article 42-3 of the FIEA (including cases where the entrusted entity entrusts part of the authority to yet another entity), whether the investment trust management company has properly established the criteria for selecting the entity to which the authority is entrusted and the method of communications therewith. Whether the investment trust management company has established arrangements and procedures for continuously examining the entrusted entity's business execution capability and its compliance with contract provisions. Whether it has specified measures to be taken when a problem is found in the entrusted entity's business execution capability (e.g., providing guidance for business improvement and refusing to renew the entrustment contract).		
(v) Regarding the selection of the entities to which orders are placed and business operations are entrusted, whether the investment trust management company, etc., has properly specified the matters concerning the entities' transaction execution capability, control environment for legal compliance, credit risk and trading costs as items that should be taken into consideration.		
(vi) Whether the investment trust management company, etc., has arrangements and procedures for a division independent from the investment division to periodically examine whether investment assets are properly invested (including whether records on the investment status are stored), including whether the investment decision process is appropriate, in accordance with investment trust contracts and asset investment contracts and the investment guideline.		
(vii) With respect to MRFs (referring to bond investment trusts prescribed in Article 25(ii) of the Ordinance for Enforcement of the Investment Trust Act; the same shall apply in (vii) below), while compensating part or all of losses incurred on the principal, done with the purpose of avoiding a sudden and unexpected fall in the value of bond holdings, etc. where the standard price falls below 1 yen per unit and affects		

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<p>individual investors' securities transactions, is permitted (as provided in Article 42-2(vi) of the FIEA and Article 129-2 of the FIB Cabinet Office Ordinance), whether the discretionary investment business operator, in an effort to avoid stable management of MRF, soundness of investment trust management companies, etc. from being affected, complies with investment limits for stable MRF management prescribed in "Rules Regarding Management of MMF, etc.", the Investment Trusts Association's self-regulatory rules, in managing MRFs.</p>		
<p>(2) Execution of Transactions When investment trust management companies, etc., execute transactions, they are required to select the transaction form that benefits rights holders most by taking into consideration the transaction price and other execution costs in a comprehensive manner. In light of the increasing diversification of the transaction forms due to the advance of financial techniques, supervisors shall examine the status of the transaction execution of an investment trust management company, etc., by paying attention to the following points, for example:</p>	—	—
<p>(i) At-Average-Price Transaction (transaction made at the average of prices of various orders of the same transaction and delivery dates, aggregated by issue and order category (sell or buy))</p> <p>A. Separation of Divisions Whether the investment trust management company, etc., has separate divisions for making investment divisions and for taking orders. In cases where organizational separation is difficult, whether, at the minimum, different persons are responsible for these two tasks.</p> <p>B. Examination of Transactions Whether the investment trust management company, etc., has a control environment for ensuring that a relevant management division, for example, examines the whole range of business processes related to at-average-price transactions.</p> <p>C. Disclosure to Rights Holders and Consent thereof (Limited to Transactions Related to Asset Investment Contracts with Investment Corporations) Whether the investment trust</p>		

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<p>management company, etc., makes at-average-price transactions after making prior disclosure to rights holders and obtaining their consent. In cases where the investment trust management company, etc., places orders involving proportional allocation of the executed transactions with regard to two or more investment asset accounts, whether it provides rights holders with appropriate explanations regarding the criteria for allocation in the case of the total executed transaction volume falling short of the total order volume.</p>		
<p>(ii) Transactions Made via Bulk Orders</p> <p>In cases where the investment trust management company, etc., places a bulk sell or buy order for the same issue on behalf of two or more investment asset accounts, and allocates the executed transactions to each asset account based on the allocation criteria prescribed by the business operator after aggregating the transactions by issue and by buy/sell order, whether it has developed a control environment similar to the one described in (i) above from the viewpoint of ensuring fairness among various investment assets.</p>		
<p>(iii) Transactions Made between Investment Assets Accounts</p> <p>Transactions made between investment asset accounts are in principle prohibited because there is a risk that investors in one of the funds involved in the transactions may receive unfavorable treatment and that such transactions may be utilized in acts that go against investor protection such as transfers of profits between the funds.</p> <p>On the other hand, of transactions specified under Article 129(1)(i) of the FIB Cabinet Office Ordinance, if a transaction between investment assets accounts falls under a case where the prohibition of transactions between investment assets accounts does not apply, the relevant management division is required to be adequately prepared to verify that the transactions meet the requirements in (a) and (b) of Article 129(1)(i).</p> <p>The “case where it is deemed to be necessary and rational,” as specified by Article 129(1)(i)(a)(4) of the FIB Cabinet Office Ordinance, is a case in which transactions between investment assets accounts executed by investment trust management companies meet the need</p>		

<p>to ensure fairness among customers and fulfill its duties of best execution and loyalty to customers, and this applies to transactions in which relevant "sell" or "buy" decisions by both of the funds executing the transactions between investment assets accounts are deemed necessary and rational, and that such transactions are executed in the best possible manner for the investment decisions made thus (or the transactions executed to follow the best execution practice results in offsetting possible losses involved in such transactions).</p> <p>In determining whether there is necessity and rationality, factors such as the investment policy and investment plans of the funds involved (including in-house investment limits introduced by the investment trust management companies for the purpose of risk management, etc.), inflow or outflow of money associated with cancellation/formation of funds (including whether there is the need to sell or buy assets in order to maintain portfolios of individual funds, etc.), etc. are considered.</p> <p>On the other hand, from the viewpoint of best execution practice, factors such as transaction costs, mitigation of market impact, etc. are considered in addition to transaction prices.</p> <p>From the above viewpoints, such transactions as listed below are considered as ones in which fairness among funds and fair price formation are ensured and as constituting a "case where it is deemed to be necessary and rational." (It must be noted, however, that these are shown only as examples and not the only ones that qualify.)</p> <p>A. To have traders execute transactions based on investment decisions made by several fund managers (limited to transactions regarding which there is not the risk of the price formation process being distorted in light of liquidity and other factors related to the relevant issue and, in cases where the transactions are executed by the same trader, the trader has no discretion over execution).</p> <p>B. To place both market buy and sell orders before the market's opening (limited to orders which have no risk of distorting the price formation process in light of liquidity and other factors related to the relevant issue).</p> <p>C. To place both buy and sell orders in intraday trading at a reasonable interval (limited to orders which have no risk of distorting the price</p>		
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<p>formation process in light of liquidity and other factors related to the relevant issue).</p> <p>D. To make transactions related to index funds executed through program trading based on contracts and trust contract provisions (limited to transactions which have no risk of distorting the price formation process in light of liquidity and other factors related to the relevant issue).</p> <p>E. To make VWAP transactions and discretionary transactions, regarding which the decision on the timing of order placement, price and other execution terms related to individual issues are entrusted by the investment trust management company, etc., to a third-party entity (limited to transactions which have no risk of distorting the price formation process in light of liquidity and other factors related to the relevant issue).</p> <p>F. To make futures transactions, regarding which it is difficult to avoid the placement of orders for the same issue because of the small number of issues available for futures trading (limited to transactions which have no risk of distorting the price formation process in light of liquidity and other factors related to the relevant issue).</p>		
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Control Environment for Customer Solicitation and Explanations for Beneficiaries, etc. (the Guidelines for Supervision VI-2-3-2(1) and (2))

Guidelines for Supervision	Outline of the company response	Applicable internal rule
(1) Prohibition of Advertisements Using Exaggerated Descriptions	—	—
(i) Whether the investment trust management company, etc., includes in its advertisements descriptions indicating that the performance, contents and method of its investment are markedly superior to those of other Financial Instruments Business Operators without providing the basis therefor.		
(ii) When including investment performance data in its advertisement, whether the investment trust management company, etc., uses descriptions that could cause misunderstanding by investors, by putting excessive emphasis on specific parts of the performance. (When investment performance data is included in an advertisement, appropriate and easy-to-understand descriptions must be		

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used, from the viewpoint of protecting investors. For example, it is necessary to examine whether the advertisement specifies the method of investment evaluation and the basis for the use of benchmarks and properly expresses that the investment performance data is an indicator that concerns past results but does not promise future performance.)		
(iii)When including investment simulation in its advertisement, whether the investment trust management company, etc., uses descriptions that could cause misunderstandings by investors by, for example, setting arbitrary assumptions. (When investment simulation is included in an advertisement, appropriate and easy-to-understand descriptions must be made, from the viewpoint of protecting investors. For example, it is necessary to examine whether the advertisement specifies the basis for the use of assumptions in the simulation and properly indicates that the simulation is based on prescribed assumptions and does not promise future investment performance.)		
(2) Provision of Documents to Beneficiaries, etc., in Potential Cases of Conflicts of Interests The following are terminology interpretations regarding the provision of documents as specified under Article 13(1) of the Investment Trust Act, and an appropriate response to inquiries shall be made in accordance therewith.	—	—
(i) Interpretation of “Same Type of Asset” The “same type of asset,” as specified under Article 13(1)(i) and (ii) of the Investment Trust Act and Article 19(1) of the Order for Enforcement of the Investment Trust Act (hereinafter referred to as the “Enforcement Order of the Investment Trust Act”), does not apply to cases where, because of limits imposed by a relevant investment trust contract or the internal rules of a relevant investment corporation, the contents of a specified asset targeted for investment are different from the contents of a specified asset targeted for investment by another investment trust fund with settlor instructions or by an investment corporation.		
(ii) Interpretation of “entrustment of management” The “entrustment of management,” as specified under Article 19(3)(i) of the Enforcement Order of the Investment Trust Act, refers to the entrustment of		

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tenant management operations, such as the renewal of real estate-related rental contracts with tenants and receipts of rents, but does not include the entrustment of the building security and maintenance operations to outside specialist business operators.		
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Duty of Loyalty and Measures to Prevent Internal Collusion (the Guidelines for Supervision VI-2-3-3(1) to (3))

Guidelines for Supervision	Outline of the company response	Applicable internal rule
(1) Points of Attention Regarding Investment Trust Management Companies, etc., Engaging in Two or More Types of Business When supervisors examine the appropriateness of measures taken by an investment trust management company, etc., which is engaging in two or more types of business (as specified under Article 29-2(1)(v) of the FIEA), to prevent internal collusion, they shall pay attention to the following points, for example, depending on the nature of its business, from the viewpoint of preventing conflicts of interests and ensuring the appropriateness of business operations in other ways.	—	—
(i) Whether the investment trust management company, etc., has taken appropriate measures to prevent collusion between its different types of business, such as establishing an internal control system and procedures for the prevention of such collusion in a manner suited to the nature of its business.		
(ii) Regarding the “non-disclosure information,” as specified under Article 147(ii) of the FIB Cabinet Office Ordinance, whether the investment trust management company, etc., has put in place information management measures, such as the appointment of the relevant manager and the establishment of management rules, and ensures the effectiveness of information management by, for example, properly identifying and examining the status of the usage of the non-disclosure information and revising the management method as necessary.		
(2) Points of Attention Regarding Prevention of Conflicts of Interest in Investment Management Business Whether appropriate measures have been taken to prevent practices that could	—	—

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promote the interests of specific rights holders at the expense of other rights holders, such as establishing an internal control system and procedures for the prevention of internal collusion between different types of business in a manner suited to the nature of the business.		
(3) Duty of Loyalty to Rights Holders	—	—
It should be kept in mind that if an investment trust investment company, etc., causes financial damage to a rights holder due to a clerical error involved in the investment of investment assets and fails to compensate for the damage, it could constitute a violation of the duty of loyalty. The same shall apply to cases where the clerical error occurs at an entity to which business operations are entrusted and where the investment trust management company, etc., which has the obligation of duty to the rights holder fails to compensate for the damage.		

Business Continuity Management (BCM) (the Guidelines for Supervision VI-2-3-4(2))

Guidelines for Supervision	Outline of the company response	Applicable internal rule
(2) Major Supervisory Viewpoints	—	—
<p>Whether the business continuity plan (BCP) ensures quick recovery from damage caused by acts of terrorism, large-scale disasters, etc., as well as continuance of the minimum necessary business operations and services for the maintenance of the functions of the financial system. Whether arrangements and procedures are in place for ensuring a response coordinated with Financial Instruments Firms Associations, securities companies, etc., and relevant organizations. Whether the BCP enables international disruptions of business operations to be dealt with in a manner suited to the actual state of business operations.</p> <p>For example, attention shall be paid to:</p> <ul style="list-style-type: none"> (i) Whether measures to secure the safety of customer data in the event of disasters, etc., have been taken (storing information printed on paper in electronic media, creating back-ups of electronic data files and programs, etc.). (ii) Whether measures to secure the safety of computer system centers, etc., have been taken (allocating suitable back-up centers, securing staff and communication lines, etc.). (iii) Whether the above back-up measures have been taken in ways to avoid geographic concentration. (iv) Whether a specific target period has 		

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<p>been set for the recovery of operations vital for the maintenance of the lives of customers, economic activities and the functions of the financial instruments markets (as a consequence of an order cancellation request regarding an investment trust (including MMFs and MRFs): aggregation of the number of cancelled units, communications business (such as the receipt of notification from a sales company regarding cancellation, aggregation, and notification to the entrusted bank), calculation of the base value, announcements, identification of the existing position, minimum investment instructions, and cancellation operations related to direct customers (point-of-contact services such as receiving cancellations from direct customers); and, for executing these business operations: legal responses (including the preparation and submission of a securities registration statement), organizational management, systems management, and crisis management (including the business of providing explanations to customers) through provisional measures such as manual operations and processing by back-up centers).</p> <p>(v) Whether the investment trust management company obtains the approval of the board of directors when it adopts the BCM and makes important revisions. Whether the BCM is subjected to examination by independent entities, such as internal and external audits.</p> <p>(Reference) “Development of BCM at Financial Institutions” (BOJ, July 2003) “Basic Principles on Business Continuity” (Joint Forum, August 2006) In addition, examination of the BCM and BCP shall basically be conducted with reference given to III-2-9.</p>		
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Other Points of Attention (the Guidelines for Supervision VI-2-3-5) (the Guidelines for Supervision VI-2-2-5(2) and (3))

Guidelines for Supervision	Outline of the company response	Applicable internal rule
<p>(2) Points to consider in the reinvestment of cash collateral When a investment trust management companies, etc. who is the securities lender (and/or its agent) reinvest the cash collateral received in securities lending transactions with</p>	—	—

<p>collateral, the business operator shall pay attention to the following points only if the said cash collateral reinvested are managed with leverage, in accordance with the Recommendation 6 of the "Strengthening Oversight and Regulation of Shadow Banking: Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos" published by the FSB (Financial Stability Board) in August 2013.</p>		
<p>(i) High-level principles</p> <p>A Whether the investment trust management companies, etc., in developing its cash collateral reinvestment strategy and investment guidelines, takes into account the possibility that the cash collateral could be recalled at any time by the party that borrowed securities, considers whether the business operator holds assets that are sufficiently liquid to meet reasonably foreseeable recalls of cash collateral, and takes measures to manage the associated liquidity risk.</p> <p>B Whether securities lending cash collateral reinvestment is conducted with one of the primary objectives being capital preservation. In particular, whether cash collateral reinvestment guidelines take into account whether unexpectedly large requests for returning cash collateral could be met if the market for the assets in which the cash collateral has been reinvested became illiquid and liquidating the assets would result in a loss.</p> <p>C Whether cash collateral reinvestment is consistent with the stated and approved investment policy of the investment trust management companies, etc. as a securities lender, so as not to add substantial incremental risk to the firm's risk profile. In developing and approving cash collateral reinvestment guidelines, whether the investment trust management companies, etc. takes into account the size of this activity relative to the business operator overall.</p> <p>D Whether investment guidelines (and subsequent modifications) for securities lending cash collateral reinvestment are formally documented and communicated to beneficial owners.</p>		

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<p>E Whether the investment trust management companies, etc. explicitly approves, formally documents and regularly reviews investment guidelines that govern cash collateral reinvestment. Whether the guidelines comply with these high-level principles. Whether the investment trust management companies, etc. as a lending agent ensures that all its clients have such guidelines.</p> <p>F Whether assets the investment trust management companies, etc. holds to meet cash collateral calls are highly liquid with transparent pricing so that they can be valued at least on a daily basis and sold, if needed, at a price close to their pre-sale valuation.</p>		
<p>(ii) Liquidity, credit, and other risks</p> <p>A Whether the investment trust management companies, etc. pays attention to the following points in reinvesting cash collateral.</p> <ul style="list-style-type: none"> a. whether taking measures to limit the potential for maturity mismatch. b. whether holding assets that are sufficiently liquid and low risk to meet reasonably foreseeable demands for cash collateral redemption, together with a buffer to guard against stress scenarios. c. whether developing an appropriate risk management structure consistent with the cash collateral reinvestment guidelines. <p>B Whether the following requirements for the cash collateral reinvestment portfolio and/or liquidity pool maintained to meet cash collateral recalls are set and continuously complied.</p> <p>d. Whether a minimum portion of the cash collateral is set for the following portfolio that can be readily converted to cash over short time horizons, such as one day and one week, to meet potential recalls of cash collateral:</p> <ul style="list-style-type: none"> - Short-term deposits (with high-quality financial institutions), - Highly liquid short-term assets (such as high quality government treasury bills and bonds), and - Short tenor transaction (such as overnight or open reverse repos backed by highly liquid assets). <p>e. Whether the investment trust management companies, etc. sets specific limits for the weighted</p>		

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<p>average maturity (WAM) and/or weighted average life (WAL) of the portfolio in which the cash collateral is reinvested.</p> <p>f. Whether the investment trust management companies, etc. sets maximum limits for the remaining term to maturity for any single investment in which the cash collateral is reinvested, which could vary by asset class based on the liquidity of the instruments.</p>		
<p>(iii) Stress test</p> <p>A Whether the investment trust management companies, etc. stress tests its ability to meet foreseeable and unexpected calls for the return of cash collateral on an ongoing basis.</p> <p>B Whether these stress tests stated in (i) above include an assessment of the business operator's ability to liquidate part or the entire reinvestment portfolio under a range of stressed market scenarios, including:</p> <ul style="list-style-type: none"> a. interest rate changes, b. higher cash collateral recalls from securities borrowers, c. higher redemptions by investors in the funds being lent, and d. changes in the credit quality of the portfolio in which the cash collateral is reinvested. 		
<p>(iv) Disclosure</p> <p>A Whether the investment trust management companies, etc. as an agent securities lender frequently discloses to their clients (the beneficial owners of securities) the composition and valuation of their portfolio of securities on loan and their cash collateral reinvestment portfolio.</p> <p>B Whether the disclosure stated in (i) above includes, at a minimum, the following items:</p> <ul style="list-style-type: none"> a. the percentage of assets held in cash or cash equivalents over a one day and one week liquidation horizon; b. the WAM and WAL of the portfolio in which the cash collateral is reinvested; c. the maximum remaining term to maturity of any individual investment; d. the percentage of assets that are held in illiquid securities (and how these are defined); e. the maximum exposure of the fund being lent to the following items: 		

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<ul style="list-style-type: none"> - individual security, - issuer, and - asset type; f. the split between secured and unsecured exposures; g. the distribution of collateral received in reverse repo; h. the average yield of the portfolio in which the cash collateral is reinvested; and i. results from liquidity stress tests. 		
<p>(3) Points to consider in repo-type transactions</p> <p>When the investment trust management companies, etc. engages in the lending and borrowing of securities, or the sale or purchase of securities on condition of repurchase or resale, with collateral (hereinafter referred to as "repo-type transactions") (including cases where the investment trust management companies, etc. is an agent), whether it establishes internal rules in regard to the assessment and management of collaterals covering the following items, in accordance with the Recommendation 9 of the "Strengthening Oversight and Regulation of Shadow Banking: Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos" published by the FSB (Financial Stability Board) in August 2013.</p>	—	—
<p>(i) Collateral types</p> <p>Whether the investment trust management companies, etc., in conducting repo-type transactions, only takes collateral types that they are able following a counterparty failure to:</p> <ul style="list-style-type: none"> A hold for a period without breaching laws or regulations; B value; and C risk manage appropriately. 		
<p>(ii) Contingency plan</p> <ul style="list-style-type: none"> A Whether the investment trust management companies, etc. has contingency plans for the failure of their largest market counterparties, including in times of market stress. B Whether these plans stated in (i) above include: <ul style="list-style-type: none"> a. how the investment trust management companies, etc. would manage the collateral following default; and b. the capabilities to liquidate the collateral in an orderly way. 		
<p>(iii) Margin call</p> <ul style="list-style-type: none"> A Whether collateral and lent securities 		

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are marked to market at least daily. B Whether margin calls (referred to as the right to claim a recovery of collateral deficiency resulting from marking-to-market at any time) are made at least daily.		
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3. Foreign investment trust management business

Control Environment for Business Execution (the Guidelines for Supervision VI-2-3-1(1) and (2))

Guidelines for Supervision	Outline of the company response	Applicable internal rule
(1) Investment and Administration of Investment Assets For the purpose of encouraging medium- to long-term asset building by households in accordance with their stages of life and raising the flow of financial assets from household into growing businesses through financial markets, investment assets, which mediates between them, can play a significant role. As such, it is hoped that investment trust management companies, etc., actively develop and provide products that support stable asset building based on customer needs. With such hopes in mind, supervisors shall examine whether an investment trust management company, etc., is properly managing and administering investment assets, by paying attention to the following points. It should be noted that the following points should be taken into consideration in a comprehensive manner in light of the nature and size of the company's business and that failure to meet some of the criteria should not automatically be deemed to mean that the investment and administration of investment assets are inappropriate.	—	—
(i) Whether the investment trust management company, etc., has properly specified the matters regarding internal organization that decide its investment policy (including a specific decision-making process).		
(ii) Whether the investment trust management company, etc., has prescribed a specific investment method for investment of investment assets by the investment division. Whether the investment management company is making efforts to clearly present information regarding the status of asset management of the relevant investment		

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<p>trust, such as listed below, to beneficiaries, etc., in a manner appropriate to the characteristics of individual investment trust products. Whether the investment management company is making efforts to clearly present information on investment trust products that use a fund-of-funds strategy to beneficiaries, etc., such as providing an overview of the destination funds (e.g. key invested assets) and the net contribution rate that incorporates the asset-management costs of the destination funds, as well as providing financial instruments business operators that sell the investment trust products with information about asset management costs.</p> <p>A. Information about fund managers (e.g. years of experience in managing investment funds, personal history, etc. of the chief fund manager, overview of management team, etc.)</p> <p>B. Process of investment decision making in putting the basic investment policy into actual operation</p>		
<p>(iii) Whether the investment trust management company, etc., has developed an appropriate control environment regarding the management of securities transactions between various investment assets and between investment assets and its own assets or third-party assets.</p>		
<p>(iv) In cases where the investment trust management company entrusts all or part of the authority over the investment made on behalf of rights holders to another entity under Article 42-3 of the FIEA (including cases where the entrusted entity entrusts part of the authority to yet another entity), whether the investment trust management company has properly established the criteria for selecting the entity to which the authority is entrusted and the method of communications therewith. Whether the investment trust management company has established arrangements and procedures for continuously examining the entrusted entity's business execution capability and its compliance with contract provisions. Whether it has specified measures to be taken when a problem is found in the entrusted entity's business execution capability (e.g., providing guidance for business improvement and refusing to renew the entrustment contract).</p>		

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<p>(v) Regarding the selection of the entities to which orders are placed and business operations are entrusted, whether the investment trust management company, etc., has properly specified the matters concerning the entities' transaction execution capability, control environment for legal compliance, credit risk and trading costs as items that should be taken into consideration.</p>		
<p>(vi) Whether the investment trust management company, etc., has arrangements and procedures for a division independent from the investment division to periodically examine whether investment assets are properly invested (including whether records on the investment status are stored), including whether the investment decision process is appropriate, in accordance with investment trust contracts and asset investment contracts and the investment guideline.</p>		
<p>(vii) With respect to MRFs (referring to bond investment trusts prescribed in Article 25(ii) of the Ordinance for Enforcement of the Investment Trust Act; the same shall apply in (vii) below), while compensating part or all of losses incurred on the principal, done with the purpose of avoiding a sudden and unexpected fall in the value of bond holdings, etc. where the standard price falls below 1 yen per unit and affects individual investors' securities transactions, is permitted (as provided in Article 42-2(vi) of the FIEA and Article 129-2 of the FIB Cabinet Office Ordinance), whether the investment trust management companies, etc., in an effort to avoid stable management of MRF, soundness of investment trust management companies, etc. from being affected, complies with investment limits for stable MRF management prescribed in "Rules Regarding Management of MMF, etc.", the Investment Trusts Association's self-regulatory rules, in managing MRFs.</p>		
<p>(2) Execution of Transactions When investment trust management companies, etc., execute transactions, they are required to select the transaction form that benefits rights holders most by taking into consideration the transaction price and other execution costs in a comprehensive manner. In light of the increasing diversification of the transaction forms due to the advance of financial techniques, supervisors</p>	—	—

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<p>shall examine the status of the transaction execution of an investment trust management company, etc., by paying attention to the following points, for example:</p>		
<p>(i) At-Average-Price Transaction (transaction made at the average of prices of various orders of the same transaction and delivery dates, aggregated by issue and order category (sell or buy))</p> <p>A. Separation of Divisions</p> <p>Whether the investment trust management company, etc., has separate divisions for making investment divisions and for taking orders. In cases where organizational separation is difficult, whether, at the minimum, different persons are responsible for these two tasks.</p> <p>B. Examination of Transactions</p> <p>Whether the investment trust management company, etc., has a control environment for ensuring that a relevant management division, for example, examines the whole range of business processes related to at-average-price transactions.</p> <p>C. Disclosure to Rights Holders and Consent thereof (Limited to Transactions Related to Asset Investment Contracts with Investment Corporations)</p> <p>Whether the investment trust management company, etc., makes at-average-price transactions after making prior disclosure to rights holders and obtaining their consent. In cases where the investment trust management company, etc., places orders involving proportional allocation of the executed transactions with regard to two or more investment asset accounts, whether it provides rights holders with appropriate explanations regarding the criteria for allocation in the case of the total executed transaction volume falling short of the total order volume.</p>		
<p>(ii) Transactions Made via Bulk Orders</p> <p>In cases where the investment trust management company, etc., places a bulk sell or buy order for the same issue on behalf of two or more investment asset accounts, and allocates the executed transactions to each asset account based on the allocation criteria prescribed by the business operator after aggregating the transactions by issue and by buy/sell order, whether it has developed a control environment similar to the one described in (i) above from the viewpoint of ensuring</p>		

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<p>fairness among various investment assets.</p>		
<p>(iii) Transactions Made between Investment Assets Accounts</p> <p>Transactions made between investment asset accounts are in principle prohibited because there is a risk that investors in one of the funds involved in the transactions may receive unfavorable treatment and that such transactions may be utilized in acts that go against investor protection such as transfers of profits between the funds.</p> <p>On the other hand, of transactions specified under Article 129(1)(i) of the FIB Cabinet Office Ordinance, if a transaction between investment assets accounts falls under a case where the prohibition of transactions between investment assets accounts does not apply, the relevant management division is required to be adequately prepared to verify that the transactions meet the requirements in (a) and (b) of Article 129(1)(i).</p> <p>The "case where it is deemed to be necessary and rational," as specified by Article 129(1)(i)(a)(4) of the FIB Cabinet Office Ordinance, is a case in which transactions between investment assets accounts executed by investment trust management companies meet the need to ensure fairness among customers and fulfill its duties of best execution and loyalty to customers, and this applies to transactions in which relevant "sell" or "buy" decisions by both of the funds executing the transactions between investment assets accounts are deemed necessary and rational, and that such transactions are executed in the best possible manner for the investment decisions made thus (or the transactions executed to follow the best execution practice results in offsetting possible losses involved in such transactions).</p> <p>In determining whether there is necessity and rationality, factors such as the investment policy and investment plans of the funds involved (including in-house investment limits introduced by the investment trust management companies for the purpose of risk management, etc.), inflow or outflow of money associated with cancellation/formation of funds (including whether there is the need to sell or buy assets in order to maintain portfolios of individual funds, etc.), etc. are considered.</p> <p>On the other hand, from the viewpoint of best execution practice, factors such as transaction costs, mitigation of market impact, etc. are considered in addition to</p>		

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<p>transaction prices.</p> <p>From the above viewpoints, such transactions as listed below are considered as ones in which fairness among funds and fair price formation are ensured and as constituting a "case where it is deemed to be necessary and rational." (It must be noted, however, that these are shown only as examples and not the only ones that qualify.)</p> <p>A. To have traders execute transactions based on investment decisions made by several fund managers (limited to transactions regarding which there is not the risk of the price formation process being distorted in light of liquidity and other factors related to the relevant issue and, in cases where the transactions are executed by the same trader, the trader has no discretion over execution).</p> <p>B. To place both market buy and sell orders before the market's opening (limited to orders which have no risk of distorting the price formation process in light of liquidity and other factors related to the relevant issue).</p> <p>C. To place both buy and sell orders in intraday trading at a reasonable interval (limited to orders which have no risk of distorting the price formation process in light of liquidity and other factors related to the relevant issue).</p> <p>D. To make transactions related to index funds executed through program trading based on contracts and trust contract provisions (limited to transactions which have no risk of distorting the price formation process in light of liquidity and other factors related to the relevant issue).</p> <p>E. To make VWAP transactions and discretionary transactions, regarding which the decision on the timing of order placement, price and other execution terms related to individual issues are entrusted by the investment trust management company, etc., to a third-party entity (limited to transactions which have no risk of distorting the price formation process in light of liquidity and other factors related to the relevant issue).</p> <p>F. To make futures transactions, regarding which it is difficult to avoid the placement of orders for the same issue because of the small number of issues available for futures trading (limited to transactions which have no risk of distorting the price</p>		
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formation process in light of liquidity and other factors related to the relevant issue).		
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Control Environment for Customer Solicitation and Explanations for Beneficiaries, etc. (the Guidelines for Supervision VI-2-3-2(1))

Guidelines for Supervision	Outline of the company response	Applicable internal rule
(1) Prohibition of Advertisements Using Exaggerated Descriptions	—	—
(i) Whether the investment trust management company, etc., includes in its advertisements descriptions indicating that the performance, contents and method of its investment are markedly superior to those of other Financial Instruments Business Operators without providing the basis therefor.		
(ii) When including investment performance data in its advertisement, whether the investment trust management company, etc., uses descriptions that could cause misunderstanding by investors, by putting excessive emphasis on specific parts of the performance. (When investment performance data is included in an advertisement, appropriate and easy-to-understand descriptions must be used, from the viewpoint of protecting investors. For example, it is necessary to examine whether the advertisement specifies the method of investment evaluation and the basis for the use of benchmarks and properly expresses that the investment performance data is an indicator that concerns past results but does not promise future performance.)		
(iii) When including investment simulation in its advertisement, whether the investment trust management company, etc., uses descriptions that could cause misunderstandings by investors by, for example, setting arbitrary assumptions. (When investment simulation is included in an advertisement, appropriate and easy-to-understand descriptions must be made, from the viewpoint of protecting investors. For example, it is necessary to examine whether the advertisement specifies the basis for the use of assumptions in the simulation and properly indicates that the simulation is based on prescribed assumptions and does not promise future investment performance.)		

Duty of Loyalty and Measures to Prevent Internal Collusion (the Guidelines for Supervision VI-2-3-3(1) to (3))

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Guidelines for Supervision	Outline of the company response	Applicable internal rule
<p>(1) Points of Attention Regarding Investment Trust Management Companies, etc., Engaging in Two or More Types of Business</p> <p>When supervisors examine the appropriateness of measures taken by an investment trust management company, etc., which is engaging in two or more types of business (as specified under Article 29-2(1)(v) of the FIEA), to prevent internal collusion, they shall pay attention to the following points, for example, depending on the nature of its business, from the viewpoint of preventing conflicts of interests and ensuring the appropriateness of business operations in other ways.</p>	—	—
<p>(i) Whether the investment trust management company, etc., has taken appropriate measures to prevent collusion between its different types of business, such as establishing an internal control system and procedures for the prevention of such collusion in a manner suited to the nature of its business.</p>		
<p>(ii) Regarding the “non-disclosure information,” as specified under Article 147(ii) of the FIB Cabinet Office Ordinance, whether the investment trust management company, etc., has put in place information management measures, such as the appointment of the relevant manager and the establishment of management rules, and ensures the effectiveness of information management by, for example, properly identifying and examining the status of the usage of the non-disclosure information and revising the management method as necessary.</p>		
<p>(2) Points of Attention Regarding Prevention of Conflicts of Interest in Investment Management Business</p>	—	—
<p>Whether appropriate measures have been taken to prevent practices that could promote the interests of specific rights holders at the expense of other rights holders, such as establishing an internal control system and procedures for the prevention of internal collusion between different types of business in a manner suited to the nature of the business.</p>		
<p>(3) Duty of Loyalty to Rights Holders</p>	—	—
<p>It should be kept in mind that if an investment trust investment company, etc., causes financial damage to a rights holder</p>		

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<p>due to a clerical error involved in the investment of investment assets and fails to compensate for the damage, it could constitute a violation of the duty of loyalty. The same shall apply to cases where the clerical error occurs at an entity to which business operations are entrusted and where the investment trust management company, etc., which has the obligation of duty to the rights holder fails to compensate for the damage.</p>		
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Other Points of Attention (the Guidelines for Supervision VI-2-3-5) (the Guidelines for Supervision VI-2-2-5(2) and (3))

Guidelines for Supervision	Outline of the company response	Applicable internal rule
<p>(2) Points to consider in the reinvestment of cash collateral When a investment trust management company, etc. who is the securities lender (and/or its agent) reinvest the cash collateral received in securities lending transactions with collateral, the business operator shall pay attention to the following points only if the said cash collateral reinvested are managed with leverage, in accordance with the Recommendation 6 of the "Strengthening Oversight and Regulation of Shadow Banking: Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos" published by the FSB (Financial Stability Board) in August 2013.</p>	—	—
<p>(i) High-level principles</p> <p>A Whether the investment trust management company, etc., in developing its cash collateral reinvestment strategy and investment guidelines, takes into account the possibility that the cash collateral could be recalled at any time by the party that borrowed securities, considers whether the business operator holds assets that are sufficiently liquid to meet reasonably foreseeable recalls of cash collateral, and takes measures to manage the associated liquidity risk.</p> <p>B Whether securities lending cash collateral reinvestment is conducted with one of the primary objectives being capital preservation. In particular, whether cash collateral reinvestment guidelines take into account whether unexpectedly large</p>		

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<p>requests for returning cash collateral could be met if the market for the assets in which the cash collateral has been reinvested became illiquid and liquidating the assets would result in a loss.</p> <p>C Whether cash collateral reinvestment is consistent with the stated and approved investment policy of the investment trust management company, etc. as a securities lender, so as not to add substantial incremental risk to the firm's risk profile. In developing and approving cash collateral reinvestment guidelines, whether the investment trust management company, etc. takes into account the size of this activity relative to the business operator overall.</p> <p>D Whether investment guidelines (and subsequent modifications) for securities lending cash collateral reinvestment are formally documented and communicated to beneficial owners.</p> <p>E Whether the investment trust management company, etc. explicitly approves, formally documents and regularly reviews investment guidelines that govern cash collateral reinvestment. Whether the guidelines comply with these high-level principles. Whether the investment trust management company, etc. as a lending agent ensures that all its clients have such guidelines.</p> <p>F Whether assets the investment trust management company, etc. holds to meet cash collateral calls are highly liquid with transparent pricing so that they can be valued at least on a daily basis and sold, if needed, at a price close to their pre-sale valuation.</p>		
<p>(ii) Liquidity, credit, and other risks</p> <p>A Whether the investment trust management company, etc. pays attention to the following points in reinvesting cash collateral.</p> <p>a. whether taking measures to limit the potential for maturity mismatch.</p> <p>b. whether holding assets that are sufficiently liquid and low risk to meet reasonably foreseeable demands for cash collateral redemption, together with a buffer to guard against stress scenarios.</p> <p>c. whether developing an appropriate risk management structure consistent with the cash collateral reinvestment guidelines.</p>		

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<p>B Whether the following requirements for the cash collateral reinvestment portfolio and/or liquidity pool maintained to meet cash collateral recalls are set and continuously complied.</p> <p>g. Whether a minimum portion of the cash collateral is set for the following portfolio that can be readily converted to cash over short time horizons, such as one day and one week, to meet potential recalls of cash collateral:</p> <ul style="list-style-type: none"> - Short-term deposits (with high-quality financial institutions), - Highly liquid short-term assets (such as high quality government treasury bills and bonds), and - Short tenor transaction (such as overnight or open reverse repos backed by highly liquid assets). <p>h. Whether the investment trust management company, etc. sets specific limits for the weighted average maturity (WAM) and/or weighted average life (WAL) of the portfolio in which the cash collateral is reinvested.</p> <p>i. Whether the investment trust management company, etc. sets maximum limits for the remaining term to maturity for any single investment in which the cash collateral is reinvested, which could vary by asset class based on the liquidity of the instruments.</p>		
<p>(iii) Stress test</p> <p>A Whether the investment trust management company, etc. stress tests its ability to meet foreseeable and unexpected calls for the return of cash collateral on an ongoing basis.</p> <p>B Whether these stress tests stated in (i) above include an assessment of the business operator's ability to liquidate part or the entire reinvestment portfolio under a range of stressed market scenarios, including:</p> <ul style="list-style-type: none"> a. interest rate changes, b. higher cash collateral recalls from securities borrowers, c. higher redemptions by investors in the funds being lent, and d. changes in the credit quality of the portfolio in which the cash collateral is reinvested. 		
<p>(iv) Disclosure</p> <p>A Whether the investment trust management company, etc. as an</p>		

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<p>agent securities lender frequently discloses to their clients (the beneficial owners of securities) the composition and valuation of their portfolio of securities on loan and their cash collateral reinvestment portfolio.</p> <p>B Whether the disclosure stated in (i) above includes, at a minimum, the following items:</p> <ul style="list-style-type: none"> a. the percentage of assets held in cash or cash equivalents over a one day and one week liquidation horizon; b. the WAM and WAL of the portfolio in which the cash collateral is reinvested; c. the maximum remaining term to maturity of any individual investment; d. the percentage of assets that are held in illiquid securities (and how these are defined); e. the maximum exposure of the fund being lent to the following items: <ul style="list-style-type: none"> - individual security, - issuer, and - asset type; f. the split between secured and unsecured exposures; g. the distribution of collateral received in reverse repo; h. the average yield of the portfolio in which the cash collateral is reinvested; and i. results from liquidity stress tests. 		
<p>(3) Points to consider in repo-type transactions</p> <p>When the investment trust management company, etc. engages in the lending and borrowing of securities, or the sale or purchase of securities on condition of repurchase or resale, with collateral (hereinafter referred to as "repo-type transactions") (including cases where the investment trust management company, etc. is an agent), whether it establishes internal rules in regard to the assessment and management of collaterals covering the following items, in accordance with the Recommendation 9 of the "Strengthening Oversight and Regulation of Shadow Banking: Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos" published by the FSB (Financial Stability Board) in August 2013.</p>	—	—
(i) Collateral types		

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<p>Whether the investment trust management company, etc., in conducting repo-type transactions, only takes collateral types that they are able following a counterparty failure to:</p> <p>A hold for a period without breaching laws or regulations;</p> <p>B value; and</p> <p>C risk manage appropriately.</p>		
<p>(ii) Contingency plan</p> <p>A Whether the investment trust management company, etc. has contingency plans for the failure of their largest market counterparties, including in times of market stress.</p> <p>B Whether these plans stated in (i) above include:</p> <p>a. how the investment trust management company, etc. would manage the collateral following default; and</p> <p>b. the capabilities to liquidate the collateral in an orderly way.</p>		
<p>(iii) Margin call</p> <p>A Whether collateral and lent securities are marked to market at least daily.</p> <p>B Whether margin calls (referred to as the right to claim a recovery of collateral deficiency resulting from marking-to-market at any time) are made at least daily.</p>		

4. Fund management business

Control Environment for Business Execution (the Guidelines for Supervision VI-2-5-1(1) and (2))

Guidelines for Supervision	Outline of the company response	Applicable internal rule
<p>(1) Investment and Administration of Investment Assets</p> <p>Supervisors shall examine whether a fund management company is properly managing and administering investment assets by paying attention to the following points. It should be noted that the following points should be taken into consideration in a comprehensive manner in light of the nature and size of the fund management company's business, and that failure to meet some of the criteria should not automatically be deemed to mean that the investment and administration of investment assets are inappropriate.</p>	—	—
<p>(i) Whether the fund management company has properly specified the matters regarding internal organization that decide its investment policy (including a specific decision-making process).</p>		

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(ii) Whether the fund management company has prescribed a specific investment method for investment of investment assets by the investment division.		
(iii) Whether the fund management company has developed an appropriate control environment regarding the management of securities transactions between various investment assets and between investment assets and its own assets or third-party assets.		
(iv) In cases where the fund management company entrusts all or part of the authority over the investment made on behalf of rights holders (as specified under Article 42(1) of the FIEA; the same shall apply hereinafter) to another entity, under Article 42-3 of the FIEA (including cases where the entrusted entity entrusts part of the authority to yet another entity), whether the fund management company has properly established the criteria for selecting the entity to which the authority is entrusted and the method of communications therewith. Whether the investment management company has developed a control environment for continuously examining the entrusted entity's business execution capability and its compliance with contract provisions. Whether it has specified measures to be taken when a problem is found in the entrusted entity's business execution capability (e.g., providing guidance for business improvement and refusing to renew the entrustment contract).		
(v) Regarding the selection of the entities to which orders are placed and business operations are entrusted, whether the fund management company has properly specified the matters concerning the entities' transaction execution capability, control environment for legal compliance, credit risk and trading costs as items that should be taken into consideration.		
(vi) Whether the fund management company has arrangements and procedures for a division independent from the investment division to periodically examine whether investment assets are properly invested (including whether records on the investment status are stored), including whether the investment decision process is appropriate, in accordance with the investment guideline or the investment contract specified under Article 2(2)(v) of the FIEA.		
(2) Execution of Transactions When fund management companies execute transactions, they are	—	—

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<p>required to select the transaction form that benefits customers most, by taking into consideration the transaction price and other execution costs in a comprehensive manner. In light of the increasing diversification of the transaction forms due to the advance of financial techniques, supervisors shall examine the status of a fund management company's transaction execution by paying attention to the following points, for example:</p>		
<p>(i) At-Average-Price Transaction (transaction made at the average of prices of various orders of the same transaction and delivery dates aggregated by issue and order category (sell or buy))</p> <p>A. Separation of Divisions</p> <p>Whether the fund management company has separate divisions for making investment divisions and for taking orders. In cases where organizational separation is difficult, whether, at the minimum, different persons are responsible for these two tasks.</p> <p>B. Examination of Transactions</p> <p>Whether the fund management company has a control environment for ensuring that a relevant management division, for example, examines the whole range of business processes related to at-average-price transactions.</p> <p>C. Disclosure to Customers and Consent Thereof</p> <p>Whether the fund management company makes at-average-price transactions after making prior disclosure to customers and obtaining their consent. In cases where the fund management company makes orders involving proportional allocation of executed transactions with regard to two or more investment asset accounts, whether it provides customers with appropriate explanations regarding the criteria for allocation, in the case of the total executed transaction volume falling short of the total order volume.</p>		
<p>(ii) Transactions Made via Bulk Orders</p> <p>In cases where the fund management company places a bulk sell or buy order for the same issue on behalf of two or more investment asset accounts, and allocates the executed transactions to each asset account based on the allocation criteria prescribed by the</p>		

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<p>Financial Instruments Business Operator after aggregating the transactions by issue and by buy/sell order, whether it has developed a control environment similar to the one described in (i) above, from the viewpoint of ensuring fairness among customers.</p>		
<p>(iii) Transactions Made between Investment Asset Accounts</p> <p>Transactions made between investment asset accounts are in principle prohibited because there is risk that investors in one of the funds involved in the transactions may receive unfavorable treatment and that such transactions may be utilized in acts that go against investor protection such as transfers of profits between the funds.</p> <p>On the other hand, of transactions specified under Article 129(1)(i) of the FIB Cabinet Office Ordinance, if a transaction between investment assets accounts falls under a case where the prohibition of transactions between investment assets accounts does not apply, the relevant management division is required to be adequately prepared to verify that the transactions meet the requirements in (a) and (b) of Article 129(1)(i).</p> <p>The "case where it is deemed to be necessary and rational," as specified by Article 129(1)(i)(a)(4) of the FIB Cabinet Office Ordinance, is a case in which transactions between investment assets accounts executed by fund management companies meet the need to ensure fairness among customers and fulfill their duties of best execution and loyalty to customers, and this applies to transactions in which relevant "sell" or "buy" decisions by both of the funds executing the transactions between investment assets accounts are deemed necessary and rational, and that such transactions are executed in the best possible manner for the investment decisions thus made (or the transactions executed to follow best execution practice result in the offsetting of possible losses involved in such transactions).</p> <p>In determining whether there is necessity and rationality, factors such as the investment policy of the funds involved (including in-house investment limits introduced by the fund management businesses for the purpose of risk management, etc.), inflow or outflow of money associated with cancellation/formation of funds (including whether there is a need to sell or buy assets in order to maintain the portfolios</p>		

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<p>of individual funds, etc.), etc. are considered.</p> <p>On the other hand, from the viewpoint of best execution practice, factors such as transaction costs, mitigation of market impact, etc. are considered in addition to transaction prices.</p> <p>From the above viewpoints, such transactions as listed below are considered as ones in which fairness among funds and fair price formation are ensured and as constituting a "case where it is deemed to be necessary and rational." (It must be noted, however, that these are shown only as examples and not the only ones that qualify.)</p> <p>A. To have traders execute transactions based on investment decisions made by several fund managers (limited to transactions regarding which there is not the risk of the price formation process being distorted in light of liquidity and other factors related to the relevant issue and, in cases where the transactions are executed by the same trader, the trader has no discretion over execution).</p> <p>B. To place both market buy and sell orders before the market's opening (limited to orders which have no risk of distorting the price formation process in light of liquidity and other factors related to the relevant issue).</p> <p>C. To place both buy and sell orders in intraday trading at a reasonable interval (limited to orders which have no risk of distorting the price formation process in light of liquidity and other factors related to the relevant issue).</p> <p>D. To conduct transactions related to index funds executed through program trading based on contracts and trust contract provisions (limited to transactions which have no risk of distorting the price formation process in light of liquidity and other factors related to the relevant issue).</p> <p>E. To make VWAP transactions and discretionary transactions, regarding which the decision on the timing of order placement, price and other execution terms related to individual issues are entrusted by the fund management company to a third-party entity (limited to transactions which have no risk of distorting the price formation process in light of liquidity and other factors related to the relevant issue).</p> <p>F. To make futures transactions, regarding which it is difficult to avoid</p>		
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the placement of orders for the same issue because of the small number of issues available for futures trading (limited to transactions which have no risk of distorting the price formation process in light of liquidity and other factors related to the relevant issue).		
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Control Environment for Customer Solicitation and Explanations (the Guidelines for Supervision VI-2-5-2(1) and (2))

Guidelines for Supervision	Outline of the company response	Applicable internal rule
(1) Prohibition of Advertisements Using Exaggerated Descriptions	—	—
(i) Whether the fund management company includes in its advertisements descriptions indicating that the performance, contents and method of its investment are markedly superior to those of other Financial Instruments Business Operators without providing the basis therefor.		
(ii) When including investment performance data in its advertisement, whether the fund management company uses descriptions that could cause misunderstanding by investors, by putting excessive emphasis on specific parts of the performance. (When investment performance data is included in an advertisement, appropriate and easy-to-understand descriptions must be used, from the viewpoint of protecting investors. For example, it is necessary to examine whether the advertisement specifies the method of investment evaluation and the basis for the use of benchmarks and properly expresses that the investment performance data is an indicator that concerns past results but does not promise future performance.)		
(iii) When including investment simulation in its advertisement, whether the fund management company uses descriptions that could cause misunderstandings by investors by setting arbitrary assumptions, for example. (When investment simulation is included in an advertisement, appropriate and easy-to-understand descriptions must be made, from the viewpoint of protecting investors. For example, it is necessary to examine whether the advertisement specifies the basis for the use of assumptions in the simulation and properly indicates		

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that the simulation is based on prescribed assumptions and does not promise future investment performance.)		
(2) Points of Attention Regarding Provision of Pre-Contract Documents	—	—
In cases where a fund management company concurrently conducts business unrelated to investment management and where it receives remuneration related to investment management business and fees related to other business collectively under the same contract, the fund management company must separately specify the remuneration related to investment management business and the fees related to other business with regard to the “matters concerning fees, remuneration or any other consideration payable by the customer with regard to said Contract for Financial Instruments Transaction,” as specified under Article 37-3(1)(iv) of the FIEA		

Duty of Loyalty and Measures to Prevent Internal Collusion (the Guidelines for Supervision VI-2-5-3(1) to (3))

Guidelines for Supervision	Outline of the company response	Applicable internal rule
(1) Points of Attention Regarding Fund Management Companies Engaging in Two or More Types of Business When supervisors examine the appropriateness of measures taken by a fund management company, which is engaging in two or more types of business (as specified under Article 29-2(1)(v) of the FIEA), to prevent internal collusion, they shall pay attention to the following points, for example, depending on the nature of its business, from the viewpoint of preventing conflicts of interests and ensuring the appropriateness of business operations in other ways.	—	—
(i) Whether the fund management company has taken appropriate measures to prevent collusion between its different types of business, such as establishing an internal control system and procedures for the prevention of such collusion in a manner suited to the nature of its business.		
(ii) Regarding the “non-disclosure information,” as specified under Article 147(ii) of the FIB Cabinet Office Ordinance, whether the fund management company has put in place		

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information management measures, such as the appointment of the relevant manager and the establishment of management rules, and ensures the effectiveness of information management by, for example, properly identifying and examining the status of the usage of the non-disclosure information and revising the management method as necessary.		
(2) Points of Attention Regarding Prevention of Conflicts of Interests in Investment Management Business	—	—
Whether appropriate measures have been taken to prevent practices that could promote the interests of specific rights holders at the expense of other rights holders, such as establishing an internal control system and procedures for the prevention of collusion between different types of business in a manner suited to the nature of the business.		
(3) Duty of Loyalty to Rights Holders	—	—
It should be kept in mind that if a fund management company causes financial damage to a rights holder due to a clerical error involved in the investment of investment assets and fails to compensate for the damage, it could constitute a violation of the duty of loyalty. The same shall apply to cases where the clerical error occurs at an entity to which business operations are entrusted and where the fund management company that has the obligation of duty to the investor fails to compensate for the damage.		

Other Points of Attention (the Guidelines for Supervision VI-2-5-4) (the Guidelines for Supervision VI-2-2-5(2) and (3))

Guidelines for Supervision	Outline of the company response	Applicable internal rule
(2) Points to consider in the reinvestment of cash collateral When a fund management company, who is the securities lender (and/or its agent) reinvest the cash collateral received in securities lending transactions with collateral, the business operator shall pay attention to the following points only if the said cash collateral reinvested are managed with leverage, in accordance with the Recommendation 6 of the "Strengthening Oversight and Regulation of Shadow Banking: Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos" published by the FSB	—	—

(Financial Stability Board) in August 2013.		
<p>(i) High-level principles</p> <p>A Whether the fund management company., in developing its cash collateral reinvestment strategy and investment guidelines, takes into account the possibility that the cash collateral could be recalled at any time by the party that borrowed securities, considers whether the business operator holds assets that are sufficiently liquid to meet reasonably foreseeable recalls of cash collateral, and takes measures to manage the associated liquidity risk.</p> <p>B Whether securities lending cash collateral reinvestment is conducted with one of the primary objectives being capital preservation. In particular, whether cash collateral reinvestment guidelines take into account whether unexpectedly large requests for returning cash collateral could be met if the market for the assets in which the cash collateral has been reinvested became illiquid and liquidating the assets would result in a loss.</p> <p>C Whether cash collateral reinvestment is consistent with the stated and approved investment policy of the fund management company. as a securities lender, so as not to add substantial incremental risk to the firm's risk profile. In developing and approving cash collateral reinvestment guidelines, whether the fund management company. takes into account the size of this activity relative to the business operator overall.</p> <p>D Whether investment guidelines (and subsequent modifications) for securities lending cash collateral reinvestment are formally documented and communicated to beneficial owners.</p> <p>E Whether the fund management company. explicitly approves, formally documents and regularly reviews investment guidelines that govern cash collateral reinvestment. Whether the guidelines comply with these high-level principles. Whether the fund management company. as a lending agent ensures that all its clients have such guidelines.</p> <p>F Whether assets the fund management company. holds to meet</p>		

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cash collateral calls are highly liquid with transparent pricing so that they can be valued at least on a daily basis and sold, if needed, at a price close to their pre-sale valuation.		
<p>(ii) Liquidity, credit, and other risks</p> <p>A Whether the fund management company. pays attention to the following points in reinvesting cash collateral.</p> <ul style="list-style-type: none"> a. whether taking measures to limit the potential for maturity mismatch. b. whether holding assets that are sufficiently liquid and low risk to meet reasonably foreseeable demands for cash collateral redemption, together with a buffer to guard against stress scenarios. c. whether developing an appropriate risk management structure consistent with the cash collateral reinvestment guidelines. <p>B Whether the following requirements for the cash collateral reinvestment portfolio and/or liquidity pool maintained to meet cash collateral recalls are set and continuously complied.</p> <ul style="list-style-type: none"> j. Whether a minimum portion of the cash collateral is set for the following portfolio that can be readily converted to cash over short time horizons, such as one day and one week, to meet potential recalls of cash collateral: <ul style="list-style-type: none"> - Short-term deposits (with high-quality financial institutions), - Highly liquid short-term assets (such as high quality government treasury bills and bonds), and - Short tenor transaction (such as overnight or open reverse repos backed by highly liquid assets). k. Whether the fund management company. sets specific limits for the weighted average maturity (WAM) and/or weighted average life (WAL) of the portfolio in which the cash collateral is reinvested. l. Whether the fund management company. sets maximum limits for the remaining term to maturity for any single investment in which the cash collateral is reinvested, which could vary by asset class based on the liquidity of the instruments. 		
<p>(iii) Stress test</p> <p>A Whether the fund management company. stress tests its ability to meet foreseeable and unexpected</p>		

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<p>calls for the return of cash collateral on an ongoing basis.</p> <p>B Whether these stress tests stated in (i) above include an assessment of the business operator's ability to liquidate part or the entire reinvestment portfolio under a range of stressed market scenarios, including:</p> <ul style="list-style-type: none"> a. interest rate changes, b. higher cash collateral recalls from securities borrowers, c. higher redemptions by investors in the funds being lent, and d. changes in the credit quality of the portfolio in which the cash collateral is reinvested. 		
<p>(iv) Disclosure</p> <p>A Whether the fund management company, as an agent securities lender frequently discloses to their clients (the beneficial owners of securities) the composition and valuation of their portfolio of securities on loan and their cash collateral reinvestment portfolio.</p> <p>B Whether the disclosure stated in (i) above includes, at a minimum, the following items:</p> <ul style="list-style-type: none"> a. the percentage of assets held in cash or cash equivalents over a one day and one week liquidation horizon; b. the WAM and WAL of the portfolio in which the cash collateral is reinvested; c. the maximum remaining term to maturity of any individual investment; d. the percentage of assets that are held in illiquid securities (and how these are defined); e. the maximum exposure of the fund being lent to the following items: <ul style="list-style-type: none"> - individual security, - issuer, and - asset type; f. the split between secured and unsecured exposures; g. the distribution of collateral received in reverse repo; h. the average yield of the portfolio in which the cash collateral is reinvested; and i. results from liquidity stress tests. 		
<p>(3) Points to consider in repo-type transactions</p> <p>When the fund management company engages in the lending and borrowing of securities, or the sale or purchase of securities on condition of</p>	<p align="center">—</p>	<p align="center">—</p>

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<p>repurchase or resale, with collateral (hereinafter referred to as "repo-type transactions") (including cases where the fund management company is an agent), whether it establishes internal rules in regard to the assessment and management of collaterals covering the following items, in accordance with the Recommendation 9 of the "Strengthening Oversight and Regulation of Shadow Banking: Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos" published by the FSB (Financial Stability Board) in August 2013.</p>		
<p>(i) Collateral types Whether the fund management company in conducting repo-type transactions, only takes collateral types that they are able following a counterparty failure to:</p> <p>A hold for a period without breaching laws or regulations;</p> <p>B value; and</p> <p>C risk manage appropriately.</p>		
<p>(ii) Contingency plan A Whether the fund management company has contingency plans for the failure of their largest market counterparties, including in times of market stress. B Whether these plans stated in (i) above include: a. how the fund management company would manage the collateral following default; and b. the capabilities to liquidate the collateral in an orderly way.</p>		
<p>(iii) Margin call A Whether collateral and lent securities are marked to market at least daily. B Whether margin calls (referred to as the right to claim a recovery of collateral deficiency resulting from marking-to-market at any time) are made at least daily.</p>		

5. In addition to the above, if you fall under the real estate-related fund management company, also answer the following items.

Control Environment for Legal Compliance (the Guidelines for Supervision VI-2-6-1)

Guidelines for Supervision	Outline of the company response	Applicable internal rule
Real estate-related fund management companies' control environments for legal compliance shall basically be examined based on the supervisory viewpoints and methods specified in III-2-1. However, they		

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shall also be examined in relation to a broad range of matters, including measures to prevent conflicts of interest specific to the real estate-related fund business.		
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Internal Control Environment (the Guidelines for Supervision VI-2-6-2)

Guidelines for Supervision	Outline of the company response	Applicable internal rule
<p>As real estate-related fund management companies are bound to the duties of due care and loyalty, they are required to establish a sufficient control environment for legal compliance and risk management. Their management teams need to formulate various rules that ensure thorough legal compliance and risk management rules that ensure appropriate risk management based on the analysis and evaluation of risks involved in real estate investment, and check the status of compliance therewith.</p> <p>It should be kept in mind that in doing the above, the management teams need to establish an internal control environment, including a control environment for due diligence that pays due consideration to the unique characteristics of real estate.</p>		

Evaluation Items Concerning Operations of Real Estate-related Fund Management Companies (the Guidelines for Supervision VI2-6-3(1) to (5))

Guidelines for Supervision	Outline of the company response	Applicable internal rule
<p>(1) Evaluation Items Concerning Due Diligence Control Environment for Purchase and Sales of Real Estate</p> <p>Real estate due diligence is an important task for the understanding of the legitimate investment value of real estate, and thus its appropriateness shall be examined with due consideration of the following points.</p> <p>Meanwhile, the management team must always understand the progress of implementation of measures to ensure the appropriateness of due diligence and the effectiveness of examination functions, while remaining aware of the issues.</p>	—	—
<p>(i) Examinations shall be performed to see whether estimates of various costs of repair/renewal are appropriately investigated and reflected in the appraised value of real estate, considering the significance of an impact on cash flows in the future.</p>		

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<p>(ii) The DCF method is an approach for valuation based on cash flows, and is a major and effective method for the appraisal of real estate. However, there are many preconditions, which may blur details. Thus, the point is whether the following items are verified, and the result of verification is recorded when the DCF method is adopted.</p> <ul style="list-style-type: none"> A. Validity of adopted figures (based on the projected estimates, in particular) and basis for judgment B. Validity of the overall scenario and basis for judgment C. Comparison and balance between the result of adopting the DCF method and the result of adopting other methods/means. 		
<p>(iii) The following points shall be considered when entrusting the formulation of engineering reports (ER) and appraisal reports and receiving them:</p> <ul style="list-style-type: none"> A. Whether it is ensured that ER writers and real estate appraisers make impartial decisions based on objective standards. B. Whether necessary information etc., is provided to ER writers and real estate appraisers, when requesting ERs and real estate appraisal. Also, whether such provision of information, etc. is properly managed. C. Whether the following points are confirmed in addition to necessary examinations on how the information, etc., mentioned in B. above has been reflected in the requested ER: <ul style="list-style-type: none"> a. Whether necessary investigations are conducted and the investigation results are justified by objective grounds when investigating soil contamination and harmful substances. b. Whether it is confirmed what kind of repairs are used as the basis for calculations of cost estimates of repairs and renewals of individual parts of a building. c. Whether necessary verifications of compliance have been conducted regarding the target property, not only compliance with laws but also with ordinances, such as district plans, etc. D. When receiving the appraisal report from the appraiser who was requested to perform the evaluation, whether the necessary 		

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<p>examination has been conducted to see how the information, etc., listed B. above has been reflected in the report and whether the following points have been verified:</p> <p>a. Whether the concept of ER has been considered and reflected. Whether the reasons and grounds for any items not being reflected have been confirmed.</p> <p>b. In the case of adopting the DCF method, whether estimates of future income and utilization rate, etc., are verified as relevant and based on objective data. Also, whether the level of relevance has been verified in the same way for the estimation of discount rates and terminal rates, which serve as preconditions.</p> <p>c. Whether necessary examinations have been performed of items that may possibly influence the liquidity of the real estate itself and the cash flows that would be generated by the real estate.</p> <p>E. In the cases where listed details in the ER and appraisal report are not used when calculating the purchase/sales price based on the result of due diligence, whether the relevance of adopted values, etc., is verified and the basis for such values is recorded and stored.</p>		
<p>(2) Control Environment for Preventing Conflict of Interest Transactions</p> <p>The management team needs to be aware of the potential for risks of conflict of interest transactions to occur, and identify not only interested persons specified in laws, but also possible business partners with which conflicts of interest may arise, and then to establish an adequate management system concerning the transactions with these persons. Examination shall be made, focusing on the following points.</p>	—	—
<p>(i) In cases where the management team adopts a policy to the effect that a fair transaction price for acquiring property can be calculated on the basis of the appraised value of the real estate, with a certain range of adjustment, whether the real estate-related fund management company has developed a control environment for periodically examining the appropriateness of such range of adjustment in view of the market conditions; whether the real</p>		

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estate-related fund management company has developed a control environment for appropriately announcing such policy (if the policy is revised, the reasons for the revision shall be included) (in the case of a private placement fund, such announcement shall be made by making notifications to subscribers).		
(ii) Whether the real estate-related fund management company has developed a centralized management system for property information (including the state of negotiations concerning purchase and sales, etc.), and authorized compliance personnel to manage negotiations concerning sales and purchases from the perspective of preventing conflict of interest transactions.		
(iii) Whether the real estate-related fund management company is aware of a high risk of conflict of interest occurring in cases where it uses the warehousing function when it is unable to acquire real estate held by a third party at the time said party wishes to sell the same, and with this in mind, carries out negotiations, clarifies the sharing of roles, and conducts due diligence procedures appropriately.		
(3) Points to Consider in the Cases Where Management of Real Estate-related Assets of Several Funds are Entrusted to One Real Estate-related Fund Management Company	—	—
In the cases where a real estate-related fund management company is entrusted with the management of real estate from several funds, it shall be considered, at the time when property information is obtained, to see whether measures have been taken to avoid competition over the acquisition among management funds and whether a framework has been established to enable each fund to make decisions independently.		
(4) Points of Attention When Acquiring Shares in Overseas Companies That Holds Real Estate Assets When an investment corporation wants to acquire a real estate asset located overseas but the corporation itself is unable to do so because of inevitable reasons including local laws and local practices, such a corporation can acquire a majority of shares with voting rights in the company that holds the said real estate asset (hereinafter referred to as "overseas real estate holder"). In such a case, all of the following	—	—

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requirements must be met.		
<p>When an investment corporation wants to acquire a real estate asset located overseas but the corporation itself is unable to do so because of inevitable reasons including local laws and local practices, such a corporation can acquire a majority of shares with voting rights in the company that holds the said real estate asset (hereinafter referred to as "overseas real estate holder"). In such a case, all of the following requirements must be met.</p> <p>(i) The overseas real estate holder's sole purpose of business is acquisition, assignment and other transactions of real estate assets in the country of its location.</p> <p>(ii) The investment corporation receives annual payments from the funds available to pay out by the overseas real estate holder as dividends in an amount proportionate to the percentage of the number of shares the investment corporation holds or the amount it invests in the overseas real estate holder (or an amount paid out in accordance with laws or practices in the overseas real estate holder's country of location).</p> <p>(iii) The overseas real estate holder has its financial statements audited or verified by a firm engaged in conducting audits or verification at the request of customers.</p>		
(5) Others	—	—
<p>(i) Scope of "Acquisition of Real Estate," etc.</p> <p>"Acquisition of real estate" does not include the development of housing sites or the construction of buildings by an investment corporation itself, but includes cases where the investment corporation concludes a contract for work and orders the development of housing sites or construction of buildings.</p> <p>However, in cases where an investment corporation is unsuitable to conclude a contract for the development of housing sites or construction of buildings, including the following cases, such practice does not fall within the scope of "acquisition of real estate."</p> <p>A. When conducting large-scale repair and renovation work, etc., tenants need to be relocated for a certain period of time, and the fluctuations of cash flows will heavily affect the entire portfolio.</p> <p>B. When an investment corporation purchases undeveloped land and</p>		

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<p>constructs new buildings, various risks will be involved in the development of real estate (development risk, authorization risk, construction completion risk, tenant risk, price fluctuation risk, interest fluctuation risk during development, and large natural disaster risk, etc.), and such risks may greatly affect the entire portfolio because the investment does not generate immediate cash flows.</p>		
<p>(ii)Forward Commitment by Investment Corporations</p> <p>In cases where an investment corporation makes a forward commitment, etc. (referring to a postdated sales contract under which payment and delivery shall be made at least one month after the conclusion of the contract, or any other contract similar thereto; hereinafter the same shall apply in (ii)), attention shall be paid to the following points. Similar treatment shall be applied in cases where an investment corporation manifests the intention to make a postdated purchase, if such manifestation of intention is effectively binding on the transaction.</p> <p>A. Whether the investment corporation clearly shows the possible impact on its financial status in the event of its failure to fulfill the forward commitment, etc., by appropriately announcing the terms of cancellation.</p> <p>B. Whether the investment corporation has, while taking into consideration the market environment, financing environment and the individual situations of the corporation, drawn up rules regarding the acquisition price of the property under a forward commitment, etc. and the maximum period from the conclusion of the contract until the delivery of the property, as well as the method for procuring funds for payment, and complies with such rules; in particular, in the case of a listed investment corporation, whether the corporation has developed a control environment for carefully considering a forward commitment, etc., under which it might have to pay an excessive penalty compared with the dividend resources, including the delisting requirements.</p> <p>C. While the property under a forward</p>		

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<p>commitment, etc. is not included in the balance sheet until payment is made for it, the price volatility risk for the property until that time is attributed to the investment corporation. In light of this, whether the investment corporation conducts continuous appraisal of the properties that it holds, and publicizes the results of the appraisal of such properties (in the case of properties which are yet to be constructed and therefore cannot be appraised, the results of the price research).</p>		
<p>(iii) Issuance of Subordinated Investment Corporation Bonds by Investment Corporations</p> <p>In cases where the investment corporation issues subordinated investment corporation bonds, supervisors shall check whether the corporation has carefully examined the necessity of fund raising through the issuance and the appropriateness of the terms of issuance, while taking into consideration that investors' interest would be harmed depending on the terms of issuance, and has publicized information on these matters appropriately.</p>		
<p>(iv) Control Environment for Managing the Outsourcing of Business Operations</p> <p>Real estate-related fund management companies, while exercising investment discretion, outsource part of their businesses to various corporations (ER corporations, appraisal corporations, trust banks, property management corporations, and building management corporations, etc.). Thus, appropriate supervision over the said outsource is essential if they are to exercise loyalty and fulfill their duties. In order to effectuate supervisions, it is necessary to improve various reporting lines from outsourcees (both direct and indirect via trust banks, etc.) upon formulating various regulations/standards, including selection criteria for outsourcees, thereby implementing effective monitoring periodically. Meanwhile, it should be noted that the appropriate clarification of role sharing between outsourcers and outsourcees is a prerequisite for a control environment for managing the outsourcing of business operations.</p>		
<p>(v) Investment, etc., in Development SPC</p> <p>Whether analysis and risk management have been appropriately</p>		

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implemented with respect to various risks (development risk, authorization risk, construction completion risk, tenant risk, price fluctuation risk, interest fluctuation risk during development, and large natural disaster risk, etc.). Whether monitoring of project progress has been properly conducted. Meanwhile, attention should be taken to ensure that investment in the development SPC by funds other than those specializing in development-style projects does not impose excessive influence on the entire portfolio, considering that the development does not generate immediate cash flows.		
<p>(vi)Control Environment for Managing Information</p> <p>As for the information management of real estate-related fund management companies, which manage listed real estate investment juridical persons, it is necessary to manage information appropriately, by taking measures to ensure confidentiality of information prior to decision making, such as investment decisions based on asset management outsourcing contracts, etc. (decision making, etc., concerning acquisition and sales), as well as confidentiality of information prior to transaction and prior to disclosure.</p>		

6. In addition to the above, if you fall under the Investment Management Business for Qualified Investors, also answer the following items.

Points of Attention Regarding the Control Environment for Business Execution (the Guidelines for Supervision VI-2-7-1(1) and (2), VI-3-1-2(2))

Guidelines for Supervision	Outline of the company response	Applicable internal rule
(1) Points of Attention Regarding the Control Environment for Execution of Transactions	—	—
In the case of an investment management business operator for qualified investors which does not have separate divisions (personnel) for making investment decisions and for taking orders, as an alternative, whether measures have been implemented for preventing prohibited acts pertaining to investment management business, in view of the investment policy, the amount of assets managed and other circumstances of the investment management business for qualified investors.		
(2) Points to Consider in Cases Where Compliance Work is Outsourced	—	—
In cases where an investment		

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<p>management business operator for qualified investors has outsourced its compliance work, supervisors need to pay attention to the following points, for example.</p> <p>It should be kept in mind that the following points are general supervisory viewpoints, and that supervisors may need to examine other points too, in view of the business operations of the investment management business for qualified investors.</p> <p>(i) Whether the business operator has clearly specified a policy and procedures for selecting the contractors.</p> <p>(ii) In cases where compliance work is entrusted to a group corporation in Japan or overseas, whether the business operator can evaluate that a system has been developed for compliance of an investment management business operator for qualified investors, considering the degree to which the said corporation possesses compliance functions and its execution of the outsourced business.</p> <p>(iii) In cases where compliance work is entrusted to an attorney, a legal professional corporation or a person equivalent thereto (hereinafter referred to as “attorney, etc.” in this item (iii) and in VI-3-1-2), whether the business operator has considered the following points.</p> <p>A. Whether the attorney, etc. entrusted with the work is a person recognized as being capable of properly carrying out the necessary guidance, etc. for complying with laws and regulations regarding financial instruments business.</p> <p>B. Whether the following items have been stipulated in the outsourcing contract concluded with the said attorney, etc.:</p> <p>a. Identification and examination of actual business conditions from a perspective of legal compliance</p> <p>b. Preparation and management of a compliance manual, and periodic implementation of compliance training</p> <p>c. Periodic preparation of a report on compliance, as well as the storing and provision of reports to the trustor</p> <p>d. System of communication between the trustor and contractor (including responses in the event of a dispute)</p>		
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e. Other matters in addition to those listed in a to d above, which are needed for compliance work pertaining to the investment management business for qualified investors		
(2) Items Regarding Examination of Staffing	—	—
<p>VI-3-1-1(1) shall, in principle, be applied mutatis mutandis when examining the organization of an investment management business for qualified investors. In addition the following points shall be taken into account.</p> <p>(i) With regard to the position responsible for making asset investment on behalf of rights holders, whether at least one or two persons who fall under either of the following items have been secured as persons with sufficient knowledge and experience regarding investment assets.</p> <p>A. A person who has been engaged in the business of providing advice or managing the relevant assets for no less than one year.</p> <p>B. A person equivalent to A.</p> <p>(ii) With regard to establishment of an independent compliance division (staff in charge of compliance), whether at least one or two persons who fall under either of the following items have been secured as persons in charge of compliance (excluding cases where compliance work is outsourced).</p> <p>A. A person who has been engaged in business related to guidance for ensuring compliance with laws and regulations with regard to the financial instruments business for no less than one year.</p> <p>B. A person equivalent to A.</p> <p>(iii) With regard to the relevant business, whether at least one or two personnel needed for the processes listed in items a through m in VI-3-1-1(1)(i)F (excluding those not required for the relevant business to be conducted in an appropriate manner, considering the investment policy, the amount of assets managed and other circumstances of the investment management business for qualified investors) have been secured.</p> <p>(Note) In cases where arrangements and procedures for enabling proper compliance with laws and regulations are deemed to have been established, the business operator may make the</p>		

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personnel secured under item (ii) and the personnel secured under item (iii) the same.		
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Measures concerning the Management of the Total Amount of All Investment Assets (the Guidelines for Supervision VI-3-1-2(3)(i))

Guidelines for Supervision	Outline of the company response	Applicable internal rule
(3) Examination Items Pertaining to the Relevance of Investment Management Business for Qualified Investors When examining an investment management business for qualified investors, in addition to the points of attention listed in (2), supervisors shall make the following checks with regard to the management of the total amount of all investment assets and to the management of the rights holders (including the investors of a registered investment corporation that is counterparty to a contract described in Article 2(8)(xii)(a) of the FIEA and the persons specified under each item of Article 15-10-4 of the FIEA Enforcement Order; hereinafter the same shall apply in this section VI-3-1-2) for all investment assets.	—	—
(i) Supervisors shall confirm whether an investment management business operator for qualified investors has taken measures to prevent the total amount of all investment assets exceeding the amount prescribed in Article 15-10-5 of the FIEA Enforcement Order.		

Measures concerning the Management of Rights Holders (VI-3-1-2(3)(ii))

Guidelines for Supervision	Outline of the company response	Applicable internal rule
(ii) Investment management business operators for qualified investors are required to conduct business in a way such that their business operations do not fall under the category of “situations in which a Financial Instruments Business Operator, which conducts investment management business for qualified investors, is deemed to have not taken necessary and appropriate measures for preventing persons other than qualified investors from becoming rights holders, by such means as checking the attributes of rights holders and persons seeking to become rights holders and identifying the patterns of		

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<p>sale, purchase and other transactions of securities by rights holders” as prescribed in Article 123(xiii-2) of the FIB Cabinet Office Ordinance pursuant to Article 40(ii) of the FIEA.</p> <p>To this end, supervisors shall confirm whether the following measures have been implemented for any investment management business for qualified investors:</p> <p>A. That internal rules for the following matters be established.</p> <p>a. In cases where the investment management business operator for qualified investors sells the securities of its own accord: that it verifies in advance the attributes of the customers being solicited, and that it explains to customers that the securities have a restriction on resale.</p> <p>b. In cases where a third party sells the securities: that the business operator verifies in advance the attributes of the customers being solicited, and that it verifies that customers are being told that the securities have a restriction on resale.</p> <p>c. That the business operator continuously verifies the attributes of the rights holders and the implementation of the resale restriction (including follow-up in cases where violations of this have been identified).</p> <p>B. That there is ongoing confirmation that the attributes of solicited customers are being verified in advance and that explanations are being given about how the securities have a restriction on resale, in accordance with the abovementioned internal rules.</p> <p>C. That there is ongoing confirmation of the distribution of actual rights holders, in accordance with the abovementioned internal rules.</p> <p>D. That any violations are being appropriately followed up, in accordance with the abovementioned internal rules.</p> <p>E. That internal audits and so forth are used to examine whether the measures listed in A to D above are being implemented appropriately.</p>		
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Guidelines for Supervision	Outline of the company response	Applicable internal rule
<p>(iii) In cases where a person intending to conduct investment management business for qualified investors is a Financial Instruments Business Operator or a person who has made notification under the FIEA and is engaged in either business specially permitted for qualified institutional investors, etc. or specially permitted investment management business, supervisors shall also confirm the following matters.</p> <p>A. That the total amount of all investment assets does not exceed the amount prescribed in Article 15-10-5 of the FIB Cabinet Office Ordinance.</p> <p>B. That only qualified investors are among the rights holders for all investment assets.</p>		

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«Reference» Establishment of internal control environment

A registration applicant is required to, for each operation, secure staff and establish control environment for business execution. In this point, with respect to “4. Internal control systems, (2) Allocation of operations” of the Summary of Registration Applicant, please refer to the below. (Reference numbers in the below chart refer to the corresponding items in the Guidelines for Supervision.)

Business operations	Staffing	Control environment for business execution
(i) Compilation and management of account books and reports	VI-3-1-1(1)(i)(F)a	III-3-3 VI-3-2-4
(ii) Disclosure	VI-3-1-1(1)(i)(F)b	III-3-4
(iii) Segregated management of investment assets	VI-3-1-1(1)(i)(F)c	
(iv) Risk management	VI-3-1-1(1)(i)(F)d	III-2-7(1)・(2) III-2-8(1) III-2-9(1) (The below item is also included for investment trust management business.) VI-2-3-4(2)
(v) Computer system management	VI-3-1-1(1)(i)(F)e	
(vi) Trading management and customer management by relevant management divisions	VI-3-1-1(1)(i)(F)f	III-2-3-4(1)・(2)
(vii) Management of sensitive corporate information	VI-3-1-1(1)(i)(F)g	III-2-4(3) (The below item is also included for real estate-related fund management business.) VI-2-6-3(5)(vi)
(viii) Advertisement screening	VI-3-1-1(1)(i)(F)h	<Discretionary investment business> VI-2-2-2(1) through (3) <Investment trust management business> VI-2-3-2(1) through (3) <Fund management business> VI-2-5-2(1)・(2)
(ix) Customer information management	VI-3-1-1(1)(i)(F)i	III-2-4(1)・(2)

English Translation for Reference Purpose Only

Business operations	Staffing	Control environment for business execution
(x) Processing of complaints and disputes	VI-3-1-1(1)(i)(F)j	III-2-5-1(2)
(xi) Execution of asset management business by the investment division	VI-3-1-1(1)(i)(F)k	<Discretionary investment business> VI-2-2-1(1)・(2) VI-2-2-3(1) through (3) <Investment trust management business> VI-2-3-1(1)・(2) VI-2-3-3(1) through (3) <Fund management business> VI-2-5-1(1)・(2) VI-2-5-3(1) through (3) <Real estate-related fund management business > VI-2-6-3(1) through (5) (excluding (5)(vi))
(xii) Internal audits	VI-3-1-1(1)(i)(F)l	III-1(1)(iv)
(xiii) Accounting and screening related to investment trust assets in the case of management of investment trust assets	VI-3-1-1(1)(i)(F)m	
(xiv) Training for officers and employees	—	III-2-1(1)(iii)・(iv)
(xv) Presence of external audits	—	III-1(1)(v)

* Since a registration applicant intending to conduct Investment Management Business for Qualified Investor needs to secure staff and establish control environment for business execution sufficient for the business operations listed in (i) through (xv) that it will conduct, it is required to be in compliance with VI-2-2 through VI-2-6 stated above and pay attention to VI-2-7-1(1).