

# Guidelines on Accountability of Investment Trust Management Company when Soliciting for Switchover of Beneficiary Certificates, etc.

Established on January 25, 2002  
Revised on September 21, 2007  
Revised on February 17, 2011  
Revised on January 13, 2022

## 1. Purpose of the Guidelines

The obligation to explain concerned with switchover solicitation of beneficiary certificates, etc. prescribed in Article 123, Paragraph 1, Item 9 of the Cabinet Office Ordinance on Financial Instruments Business, etc. (Cabinet Office Ordinance No. 52 of 2007; hereinafter referred to as the "Cabinet Office Ordinance") and Article 5, Item 13 of the Regulations for Direct Offering, etc. of Beneficiary Certificates, etc. is one of the requirements for soliciting a switchover of beneficiary certificates, etc. which often have long-term investment horizon and a variety of product attributes, in order to prevent such a switchover from being conducted without sufficient explanation, and to explain Significant Matters for determining whether such switchover would meet customer's needs or benefit customer's interests.

The purpose of the Guidelines is to facilitate the compliance of the Regulations by presenting the contents of the explanation concerning the accountability required for the act of soliciting a switchover of beneficiary certificates, etc. as well as giving guidance for the establishment of an internal control environment in order to perform such accountability.

## 2. Solicitations, etc. for Switchover subject to the Regulations

### (1) Solicitation activity for switchover subject to the Regulations

The act of soliciting for a switchover prescribed in the Regulations means an act of soliciting a customer to cancel a contract of the beneficiary certificates currently held by such customer, or redeem or sell such beneficiary certificates (hereinafter simply referred to as "cancellation") and to participate in an offering of other beneficiary certificates at the same time. Therefore, the Regulations are applicable to the act of soliciting for "cancellation" and "offering" as a set (switchover).

The relevant act shall not be determined based on whether or not the actual cancellation and conclusion of another contract as to the relevant offering have been made at the same time.

(Note) The following cases are considered to be switchover solicitation.

- (i) Instance where while encouraging a customer to invest fresh funds in beneficiary certificates, etc. at first, the sales representative eventually recommends such customer to purchase the such beneficiary certificates, etc. using the funds obtained from selling other beneficiary certificates, etc. currently held by such customer;
- (ii) Instance where a sales representative solicits a customer for sale of an investment product and purchase of another investment product as a package through telephone calls, visits, etc., and actual purchase and sale are conducted via the Internet;

- (iii) instance where a sales representative solicits a customer for sale and purchase of investment products as a package and funds for the purchase of the relevant beneficiary certificates, etc. are transferred from an investment trust such as MRF or MMF, which are not subject to the Regulations;
- (iv) instance where a sales representative solicits a customer for sale and purchase of beneficiary certificates, etc. as a package during the consultation that such customer has asked for on his/her asset management; and
- (v) instance where a sales representative solicits a customer for sale and purchase of investment products as a package and funds for the purchase of the relevant beneficiary certificates, etc. are appropriated by the sale of other product(s) (or by a separate fund) (or instance where the sale proceeds are once returned to the customer before being deposited again as the purchase payment).

The following examples are not considered to fall under the category of switchover solicitation. However, it should be noted that the following examples could also be regarded as switchover solicitation depending on the actual circumstances of solicitation to a customer.

- (i) Instance where a customer has invested a fresh fund in beneficiary certificates, etc. recommended by a sales representative, and after the conclusion of such transaction, the sales representative recommends a sale of other beneficiary certificates, etc. when consulted by the customer about his/her needs for new funds;
- (ii) instance where a sales representative recommends to a customer to invest fresh funds in beneficiary certificates, etc., and such customer concludes the purchase contract thereof and sells another investment trust to fund the purchase of such investment recommended at the customer's own discretion (without any solicitation for sale from the sales representative) prior to the delivery date (payment date); and
- (iii) Instance where it is evident that there is no solicitation from a sales representative and a customer gives instruction to sell the designated investment trust and purchase another trust.

(2) Beneficiary certificates, etc. subject to Regulations

Beneficiary certificates, etc. subject to the Regulations are other than those set forth in Article 65, items (ii) (a) through (c) of the Cabinet Office Ordinance (e.g., MMF, MRF).

3. Contents, etc. of Explanation

In soliciting switchover, it is necessary to explain Significant Matters which may affect customers' investment decisions, with the following considerations in mind:

- In case of soliciting switchover, considering in advance the respective product attributes of the beneficiary certificates, etc. to be sold and the beneficiary certificates, etc. to be acquired, the customer's needs, benefits to be gained and other factors in connection with such switchover, comprehensively examine whether such switchover will be suitable for the customer's investment policy, what kind of risk and expenses will be incurred to the customer, and whether the customer can correctly understand the purpose of such switchover among other matters.
- When, as a result of the examination described above, it is judged that it is reasonable to make switchover

solicitation to the customer, in addition to the explanation in the prospectus of the beneficiary certificates, etc. to be acquired, explanation shall also be given on matters necessary for the customer to determine whether such switchover is reasonable in light of his/her own investment policy.

- The content of explanation as well as the materials and time required for such explanation at the time of soliciting switchover vary depending on the attributes and investment experience of the customer in addition to the nature of the beneficiary certificates, etc. concerned. Therefore, such explanation shall be made in a manner deemed appropriate in accordance with the degree of understanding of the customer to be solicited.

#### 4. Establishment of Internal Control System

Acquisition and redemption of beneficiary certificates, etc. by customers are conducted on a daily basis, and it is assumed that each company is conducting necessary monitoring. Monitoring shall be conducted in particular with regard to solicitation for switchover in order to assure that explanation to customers is being appropriately performed according to the purport of laws and regulations, Comprehensive Guidelines for Supervision and the voluntary regulations of the Association.

Each member company shall properly perform its obligation of explanation in light of its business operations and solicitation methods (branch counter, customer visit, telephone, etc.), and shall establish a system to check whether such solicitation meets customer's needs and whether such solicitation for switchover is conducted for customer's benefit not only by paying attention to individual solicitation activities and transactions but also by performing broader examination of such solicitations and transactions.

#### 5. Others

##### (1) Development of overall internal control system in relation to beneficiary certificates, etc.

In view of the fact that there are a large number of beneficiary certificates, etc. designed on long-term ownership and in order to ensure thoroughly customer-oriented marketing practices, it is desirable to develop an overall internal control system as regards to any offering of beneficiary certificates, etc. in addition to such internal control system concerned with accountability according to the Guidelines. As specific examples, the following can be considered.

##### (i) Establishment of internal rules, etc.

[Content] Regarding switchover between beneficiary certificates where their basic investment policy and investment assets are similar or any repeated switchovers within a short period of time regardless of their respective assets to be invested, internal rules and other relevant matters shall be established to ensure thoroughly customer-oriented marketing practices, taking into full consideration economic rationality concerning such switchover as well as customers' needs and interests.

##### (ii) Implementation of monitoring

[Content] In order to ensure thoroughly customer-oriented marketing practices based on their needs and interests as well as economic rationality and suitability to the customer concerning such switchover, the member company shall conduct monitoring especially for switchovers between the

funds of similar characteristics or repeated switchovers in a short period of time.

(2) Relationship with other Laws, Regulations, etc.

(i) Explanation using prospectus

In general, when soliciting customers to subscribe for beneficiary certificates, etc., it is necessary to explain matters according to the contents of prospectus other than the “Significant Matters” as regards to switchover solicitation.

(ii) Relationship to principle of suitability

From the viewpoint that the explanation of “Significant Matters” as regards to switchover solicitation shall be made in consideration of the principle of suitability for investment, it is necessary to sufficiently understand investment experience, investment purpose, financial resources, etc. concerned with the relevant customer and to conduct solicitation for investments suited to such customer’s intention and actual circumstances.

In addition, when the Transaction Commencement Criteria is established, it is necessary to confirm that such Criteria is met before conducting any solicitation activities.

End.

Supplementary Provision

This amendment will come into effect on September 30, 2007.

Supplementary Provision

This amendment shall come into effect on April 1, 2011.

Supplementary Provision

This amendment shall come into effect on January 13, 2022.

\* The amended provisions are as follows:

Revisions to Article 1.

Deletion of Article 2.

Addition of (Note) to Article 2 (Formerly Article 3).

Revisions to Articles 3, 4 and 5 (Formerly Articles 4, 5 and 6)

Deletion of "Attachment" and "Reference".