

Interpretation concerned with Article 6-3 of the Regulations for Direct Offering, etc.
of Beneficiary Certificates, etc.
(Guidelines for Sales through Solicitation to Elderly Customers)

Established on December 19, 2013
Revised on October 13, 2016
Revised on July 8, 2021

The thinking behind the establishment of internal rules as provided for in Article 6-3 (effective as of December 19, 2013) of the Regulations for Direct Offering, etc. of Beneficiary Certificates, etc. (hereinafter referred to as the “Regulations for Direct Offering, etc.”) is as follows:

1. Establishment of Internal Rules

Q1: We believe that any investment solicitation should be made in compliance with the principle of suitability not only for elderly customers but also for all customers. Why do we need to develop internal rules specifically for elderly customers?

A: It is generally accepted that older people may have diminished capacity for memory and understanding in addition to physical decline. Moreover, elderly people have few opportunities for fresh income, and their assets are likely to be applied for future living expenses. There are cases where elderly customers with lots of investment experience in the past who had no change in appearance and seemed to have sufficient understanding at the time of solicitation do not remember at all the transaction they engaged in after a few days. As a result, complaints have been filed by the persons concerned or their family members, leading to mediation or litigation. Therefore, for soliciting investment from elderly customers, it is necessary to establish internal rules in accordance with the circumstances of each member company in order to take a prudent approach based on the principle of suitability for investment.

Internal rules here include various guidelines, etc. established by each member company (the same shall apply hereinafter). In addition, as long as the contents to be provided in the internal rules are satisfied, it is not always necessary to create independent internal rules for this specific matter, and existing internal rules may be amended accordingly.

Q2: In establishing internal rules, what should be specified?

A: Actual situations surrounding the transactions with elderly customers may vary depending on the type and size of Full Members and characteristics of each investment trust. Accordingly, internal rules shall be set forth in accordance with the prevailing circumstances of each member company. However, it is necessary to have a certain degree of alignment among our member companies, because any major difference in their approach to solicitation of the elderly customers may cause them confusion when they deal with multiple Full Members.

Therefore, when establishing internal rules, at least the following matters shall be prescribed in accordance with the actual circumstances of each member company with reference to the “Interpretation concerned with Article 6-3 of the Regulations for Direct Offering, etc. of Beneficiary Certificates, etc.”

(hereinafter referred to as the “Guidelines”).

(i) Definition of elderly customer

Define, based on their age, the scope of the customers for whom a more prudent approach to solicitation is considered necessary. As a guide, it may be considered that the customers at or over the age of 75 should be selected as the subject group with even more prudent approach to be applied to those at or over the age of 80 when any solicitation is made.

Furthermore, please set forth in the internal rules those who can be excluded from the application of the Guidelines, as well as the specific methods and procedures to determine those who can be excluded.

→ Please refer to “2. Definition of Elderly Customer.”

(ii) Scope, etc. of products that can be solicited to elderly customers

Specify the range of products that can be solicited to elderly customers without the prior approval of a manager. If solicitation of products outside of such scope is made possible by the prior approval of the relevant manager, please also specify procedures and conditions therefor.

→ Please refer to “3. Products for sale through solicitation to elderly customers.”

(iii) Solicitation in accordance with the location and method thereof

Please provide internal rules respectively for each of face-to-face solicitation (customer visit), solicitation by telephone, and solicitation at the branch counter.

→ Please refer to “4. Location and Method of Solicitation.”

(iv) Communication and confirmation of the details of a transaction, and continuous condition check of the elderly customer

Regarding the communication and confirmation of the details of a transaction, and continuous condition check, please specify “type of customers,” “frequency,” “method,” and “person who is in charge of such communication, confirmation, and condition check” according to the risk level of the customers.

→ Please refer to “5. Communication and Confirmation of Details of Transaction and Continuous Condition Check.”

(v) Monitoring

Please provide for monitoring the procedures, etc. described in (ii) through (iv) above.

→ Please refer to “6. Monitoring.”

Q3: Do we need to revise our internal rules to reflect the revisions made to the Guidelines in August 2021?

A: At the time of revision to the Guidelines in August 2021, descriptions have been added regarding the interpretation of elderly customers who are not subject to the Guidelines, changes in the method of communication after the execution of a contract, and the idea on continuous condition check of the elderly. In light of these revisions, it may be advisable to revise the existing internal rules if they do not conform to the intent of the Guidelines or fail to satisfy the matters to be specified.

On the other hand, if the current internal rules are in accordance with the revised Guidelines and satisfy the requirements to be provided, no revision is necessary.

2. Definition of Elderly Customer

Q1: How should the definition of “Elderly Customer” be provided for?

A: The purpose of establishing Article 6-3 of the Regulations for Direct Offering, etc. is to assure appropriate solicitation of investment, etc. when conducting sales solicitation to elderly customers. Therefore, please specify based on their age the scope of the elderly customers for whom a more prudent approach to solicitation is considered necessary. As a guide, it may be considered that the customers at or over the age of 75 should be selected as the subject group with even more prudent approach to be applied to those at or over the age of 80 when any solicitation is made.

If a trading agent system has been established, it is necessary to apply the internal rules not only to account holders but also to the trading agents if such trading agents are elderly. Incidentally, where an account holder is an elderly customer and his/her trading agent is not, please provide for in accordance with the actual circumstances of such a trading agent system at each member company.

Q2: When internal procedures are to be established for solicitation activities to elderly customers, should the same procedures apply to all elderly customers?

A: It is considered reasonable that consideration matters may vary depending on the past investment experience, occupation, professional carriers, health conditions, etc. relevant to each elderly customer. On the other hand, in view of the fact that physical decline generally occurs with age, it will be necessary to prescribe requirements in stages according to the elderly customers’ age when establishing internal procedures so that a more careful approach to solicitation is taken as they become older.

Specifically, it is recommended to establish two sets of procedures for those at 75 years of age or older and those at 80 years of age or older in order to conduct more prudent and age-appropriate solicitation. For details, please refer to “3. Products for sale through solicitation to elderly customers” and the subsequent descriptions of the Guidelines.

However, although age serves as a certain guide, it is not an absolute standard, and therefore, it may be considered not to apply the Guidelines to certain elderly persons subject to the memory, capacity for understanding, income level, financial status, etc. of the relevant elderly customer.

For example, if all of the requirements listed in (i) and (ii) below are satisfied, it will be possible to exclude such a customer from the scope of the Guidelines with the approval of the officer, etc. in charge (*).

* Including managers who have been delegated authority from the officer in charge. The same shall apply hereinafter.

(i) Satisfactory memory, understanding, etc.

A customer who has proved to possess satisfactory memory and understanding to make investment decisions on a continuing basis as a result of interviews, etc. conducted at a regular interval on the following matters, while the relevant manager such as a branch manager fully understands and is satisfied with the attributes, financial literacy, and investment objectives in relation to such a customer.

○ Example of verification through direct conversation with a customer regarding his/her memory:

- Remembers the details of latest transaction, such as product and issue name; valuation loss or

- gain concerned with his/her portfolio; history of recent deposits and withdrawals, etc.;
 - Aware of the current market situation and remembers the recent price movements of investment product(s) held by him/her; and
 - Remembers the specifics of the conversations held with the relevant manager at the previous interview.
- Example of verification through direct conversation with customer regarding his/her understanding:
 - Capable of stating his/her own thoughts on market conditions and current affair news;
 - Capable of accurately explaining his/her ideas on investment, as well as features of products held by him/her while recognizing risk; and
 - Possessing computing capability in relation to investment transactions including those for commissions, yields, etc.
 - Examples of indirect verification of memory and understanding through communication with family members or through objective observations of the concerned elderly
 - Confirmation obtained from a family member as to the level of the elderly customer's memory and understanding being satisfactory; and
 - Fact that the relevant customer is engaged in an occupation, managerial position, or volunteer activities that require a satisfactory level of memory and understanding.

In checking capacity for memory and understanding, it is desirable that their memory and understanding should be checked comprehensively from as many perspectives as possible in accordance with the attributes of the customer and with reference to the examples described above.

If it is perceived during the conversation, etc. that an elderly customer experiences or is beginning to experience memory problems, such customer shall not be excluded from the application of the Guidelines.

Comprehension has a tendency to decline with age regardless of the occupations, past investment experience, and various qualifications relevant to an elderly customer. Therefore, it is necessary to make a judgment by thoroughly examining the results of verification tests described above without prejudice to the circumstances.

In order to check a customer's memory, understanding, etc., it is important not only to ask questions that can be answered by simple "Yes" or "No," but also to ask the customer to talk as much as possible. In addition, it is also necessary to be careful not to judge easily that a person has sufficient memory and understanding based only on simple greetings, short interviews, or the fact that such person has been engaged in transactions for a long time.

The above examples are merely demonstrative, and it is recommended that each member company may devise more suitable verification procedures, applying its own originality and ingenuity.

(ii) Verification of income level and financial conditions

A customer who has been confirmed by the relevant manager such as branch manager to possess sufficient level of income and/or financial assets to continue investment transactions given the risk inherent in transaction as result of examining his/her latest income level and financial conditions through an appropriate means such as the updated customer card, etc.

Separately, concerning the elderly customer who is currently the CEO, officer, etc. of a company, he/she may be excluded from the application of the Guidelines with the approval of the officer in charge, since such customer is considered to satisfy the descriptions in (i) and (ii) above, as long as the relevant manager such as a branch manager fully understands the customer's attributes, financial literacy, and investment intentions as a result of interviews with such a customer at a regular interval.

However, with regard to the elderly customer who is excluded from the application of the Guidelines, if such an elderly customer intends to invest in a product for which he/she has no experience, or suddenly make a larger investment than usual, if there has been a significant change in the income or financial conditions concerned with the customer, or if there has been any change noticed in their ability as to memory and understanding that may undermine the health of his/her investment judgment, it is necessary to take prudent actions, such as re-examining the customer's investment intention, memory, and understanding by the relevant manager such as branch manager as appropriate.

3. Products for sale to elderly customers through solicitation

Q1: Is it necessary to restrict the range of products available for sale to elderly customers by internal rules? Also, do we need to restrict any unsolicited orders from elderly customers?

A: When selling to elderly customers through solicitation any product with large price fluctuations, complex structures, or poor liquidity, it is necessary to examine their suitability for the relevant customer.

Accordingly, it is necessary to prescribe the scope of products available for solicitation to elderly customers as specifically as possible based on the principle of suitability, and to take a more cautious approach to other products (hereinafter referred to as the "Products Requiring Cautious Solicitation") by establishing prescribed procedures and conditions, such as obtaining prior approval from the manager when soliciting for such Products Requiring Cautious Solicitation.

"Solicitation" in the Guidelines means "explanation regarding purchase of an individual product."

In the event that an elderly customer wishes to purchase the Products Requiring Cautious Solicitation, for which no solicitation effort is made, by designating the individual product name and the quantity or amount thereof, any procedures or conditions under the Guidelines shall not apply.

Nevertheless, when an elderly customer inquires, "I want to buy an investment trust. What do you recommend?", it is necessary to respond in accordance with the prescribed procedures and conditions, since explanation of the specific Products Requiring Cautious Solicitation is regarded as solicitation.

Q2: What products are considered to be available for sale through solicitation to elderly customers regardless of the procedures or conditions specified?

A: The following products are considered to be appropriate due to their relatively small price fluctuations, low complexity of structures, and high liquidity:

- (i) Government bonds, local government bonds, government guaranteed bonds, etc.;
- (ii) Straight bonds (so-called SB);

(iii) Investment trusts investing mainly in public and corporate bonds with relatively stable management style (*); and

* With regard to the applicability of an investment trust that “invests mainly in public and corporate bonds with relatively stable management,” each member company shall determine such applicability with reference to the “objectives and characteristics of the fund” and other items described in the prospectus of each investment trust.

(iv) Bonds and investment trusts (*) that conform to any of the descriptions in (i), (ii), and (iii) above but are denominated in the foreign currencies specified by the Full Members in their internal rules as having a public name recognition and sufficient liquidity when considering the circulation volume of currencies, liquidity of securities denominated in such currencies, their volatility, the size of trading spread, and the degree of customer recognition, in addition to the economic conditions, capital regulations, etc. of the countries pertinent to such currencies.

* Although each member company shall decide the relevant currencies, as of March 2021, the U.S. dollar, the Euro, and the Australian dollar, etc. are considered to fall into this classification.

With regard to stocks, convertible bonds, ETFs and ETNs (including leveraged and inverse types), REITs, warrants, and securities-related market derivatives (listed futures and option transactions) that are listed or going to be listed on the financial instruments exchanges or the foreign financial instruments markets, despite their relatively high price fluctuation risk given the fact their product attributes are widely known and there is demand for transactions in keeping up with ever-changing price movements, it is considered that universal restriction on solicitation for such transactions is unlikely to be suitable (regarding credit transactions, any trading in connection with warrants and transactions on securities-related market derivatives (listed futures and option transactions), it is necessary to comply with the rules on investment solicitation pursuant to Article 6 of the “Rules on Investment Solicitation and Customer Management by Association Members” by the Japan Securities Dealers Association).

Separately, for investment trusts designed to track the price movements of the Nikkei Stock Average (Nikkei 225) or the Tokyo Stock Exchange Stock Index (TOPIX), since such indices are widely known and it is easy to obtain information on price fluctuations to that effect, the same argument will apply.

Therefore, it is not considered necessary to designate any of these products as Products Requiring Cautious Solicitation as provided for in the Guidelines. (However, among the above-mentioned products, there is a possibility that some company may decide to limit such products to domestic products or exclude those products with high credit risk even if they fall under the classification mentioned above).

With respect to transactions with elderly customers regarding these products, the internal rules shall not preclude such products from being subject to the prescribed procedures and conditions for sales through solicitation. If so, it is desirable to develop measures so as not to impede smooth transactions as much as possible.

Q3: Can't we make any solicitation to elderly customers for the Products Requiring Cautious Solicitation? Is it acceptable to conduct their solicitation after obtaining prior approval from the manager in charge? In that case, what are the considerations that such manager should be aware of before giving prior approval?

A: Some elderly customers have sufficient investment experience and investment fund, and want to invest in the Products Requiring Cautious Solicitation. For such customers, the member company may provide them with necessary investment information after fully confirming their investment intentions.

However, elderly people may have changes in their health conditions, and even if the sales representative in charge with whom they usually contact does not see any problem with their understanding, etc., it is possible for others to be able to find some concern for their speech and behavior.

For this reason, it is considered necessary for the sales representative to obtain the prior approval of the relevant manager each time such sales representative solicits elderly customers for the Products Requiring Cautious Solicitation. These procedures should apply to any customers at or over the age of 75 as a guide.

The prior approval of the relevant manager should not be given based on the statement from the relevant sales representative alone, but it is also necessary for such manager to examine health conditions, understanding, etc. of the elderly customer concerned through interview or telephone conversation (collectively referred to as "interviews") and to judge the appropriateness of the solicitation.

It is necessary to conduct interviews for each solicitation or at the regular interval established as appropriate according to the attributes, etc. of the customer.

The matters to be confirmed at interviews may include the following:

- Are there any health problems?
- Do the conversations make sense?
- Is there any problem with their understanding (degree of understanding on financial instruments)?
- Investment intentions, etc.

At the time of interviews, it is essential to properly check the items mentioned above instead of merely exchanging greetings or making short telephone calls in spite of the fact that proper interviews are possible.

Moreover, the contents of such interviews shall be recorded and kept to utilize them for monitoring as necessary. For recording means thereof, it is not always necessary to specify a recording medium or format. For example, if a telephone has a recording function, such recording may suffice.

In the Guidelines, the managers in charge of giving the prior approval are those persons in a position equal to or higher than a certain position designated by each member company in light of their experience and insight, and not limited to so-called operating officers, but those who have practical approval authority within the internal organizations (section, department, group, etc.). Furthermore, it is not necessary that the manager in charge of giving prior approval has to be the same person as the manager in charge of placing an order as provided for in "4. Location and method of solicitation." Reflecting their responsibilities for each situation, each member company should select such managers as appropriate.

When such a manager is also a sales representative for an elderly customer, it is desired in principle that a person senior to the relevant manager is designated to give prior approval. However, where such a manager in a certain or higher position is recognized as appropriate by the member company in light of their

professional experience and other factors, the relevant manager may make decisions on giving prior approval for the solicitation of his/her own elderly customer themselves.

Q4: Is there any procedure to be established other than the prior approval from a manager in charge? If any, what types of elderly customers should it apply to?

A: As stated in Q3, it is considered necessary to obtain prior approval from the relevant manager in case of soliciting for the Products Requiring Cautious Solicitation to elderly customers. In addition, it is considered that memory and understanding of elderly people generally tend to deteriorate as they age. Therefore, in addition to obtaining prior approval from the relevant manager for solicitation, it may be appropriate to impose restrictions on receiving orders on the day of solicitation, to designate the relevant manager to receive orders from the elderly customer, and to communicate and confirm the details of transactions, as well as to conduct continuous condition check by a person other than the relevant sales representative (person who has made solicitation), and to monitor the transactions relevant to such elderly customer.

These procedures should apply to customers aged 80 years and over as a guide. Monitoring in relation to the prior approval by a manager should also apply to the customers aged 75 years and over as a guide.

For details, please refer to “4. Location and Method of Solicitation” through “6. Monitoring.”

4. Location and method of solicitation

Q1: What kind of rules should be considered when visiting an elderly customer for the solicitation of Products Requiring Cautious Solicitation?

A: Unlike solicitation by telephone with a recording function or by over-the-counter solicitation at a branch where multiple sales representatives can respond, solicitation made at the customer visit is difficult to record the details of explanation, customer’s reactions, and else. This may cause trouble at a later day of “You said it.”, “I did not.” etc. Therefore, it is necessary to record and safekeep conversations with elderly customers and their family members during the visit. For instance, with the consent of such customer and others, it is possible to record the conversations on an IC recorder or the like, or to record for safekeeping the contents of main conversations and the state of the elderly customer at the office after the relevant visit.

It may happen that such an elderly customer does not remember or understand the product attributes, etc. the next day although he/she seemed to understand them when receiving the explanation. Accordingly, in case of solicitation by visit (it is assumed that prior approval from the manager in charge has been obtained. The same shall apply to Q2 and Q3 in this section), it is considered appropriate in principle not to receive the relevant order from such customer on the day of solicitation visit, but to receive it on the day following solicitation or thereafter, regardless of its means; via telephone, visit, or over-the-counter at a branch.

In this case, such order must be received by a manager in charge instead of the sales representative who solicited the product relevant to the order on or before the previous day. This is because it is necessary to ensure that the elderly customer, who seemed to fully understand product attributes and risk at the time of solicitation visit, is placing such purchase order with full understanding of the contents of the explanation in order to avoid the situation where such customer does not remember the contents of the solicitation nor

understand the product attributes among others on the days following the solicitation.

This does not mean that the sales representative who made solicitation the previous day or before may not directly call such elderly customer. Since after a day-long examination by an elderly customer, such customer may have additional questions or matters for consultation, it may be recommended that the relevant sales representative makes an initial telephone call to answer their questions, etc., and the manager in charge will speak to the customer to receive the order and confirm the contents of such an order.

When the relevant manager makes a direct call to an elderly customer, in order not to be suspected by the elderly customer, the sales representative who makes the solicitation on or before the previous day may inform the customer in advance to the effect that “the details of the transaction will be confirmed by XX of our company over telephone tomorrow or thereafter.”

It is necessary to record and save the contents of conversations at the time of receiving orders.

When a manager is also a sales representative for an elderly customer, an order placed on or after the next day of solicitation may be received by another manager (not limited to the one who is senior to the manager who has made the relevant solicitation). However, such a manager in a certain or higher position designated as appropriate by the member company in light of their professional experience and other factors may make solicitation to his/her elderly customer and receive the orders themselves on the day following solicitation or thereafter.

Please refer to Q2 for considerations when accepting orders by telephone on or after the next day of the solicitation, and Q3 for considerations when accepting orders at the counter of a branch office. Separately, please refer to Q6 for the response in the event that an elderly customer who has received an explanation regarding the purchase of an individual product desires to purchase such product on the day of explanation.

As described above, it is considered appropriate in principle to refrain from receiving an order for the product on the day of solicitation thereof by visiting an elderly customer. However, if such elderly customer wishes to purchase the relevant product for which solicitation is made in the presence of their family member(s), the order may be accepted by receiving a purchase instruction form from the elderly customer after obtaining the signature of consent on the purchase instruction form from the family member(s) present at the solicitation to the effect that they agree on the purchase of such product.

The purpose of requesting the presence and obtaining consent of the family members in relation to the transactions with elderly customers is to have family members pay attention to the elderly customers and ensure that they have an intention to purchase the relevant products based on the sufficient understanding of the products. Therefore, each member company may define the word “family” according to this purpose.

<p>Q2: What kind of rules can be considered when soliciting an elderly customer for the Products Requiring Cautious Solicitation over the telephone?</p>
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A: In principle, it is not appropriate to receive an order for the Products Requiring Cautious Solicitation from an elderly customer on the same day of such solicitation over the telephone as is the case with that of the solicitation visit. Moreover, unlike face-to-face conversations of customer visit, it is not generally possible to have conversations simultaneously with the elderly customer and his/her family member(s).

Therefore, when conducting solicitation for the Products Requiring Cautious Solicitation by telephone, it is considered appropriate to receive an order from an elderly customer after confirming whether the contents of solicitation made are understood by such customer through making another telephone call, etc. on or after the next day of the solicitation. In this case, it is necessary for the relevant manager to receive such an order on the following day or thereafter as in the case of Q1.

It is not possible to check elderly customers' complexion or actions over the telephone. Consequently, in order to confirm whether the elderly customer fully understands the contents of the solicitation made by the sales representative, it is important to have the elderly customer talk about the matter as much as possible instead of seeking straight reply such as "yes" or "no".

Furthermore, it is considered necessary to record and store the contents of conversations at the time of solicitation and receiving the orders in order to utilize them for after-the-fact monitoring or when receiving an inquiry at a later date from the elderly customers or their family members regarding the contents of solicitation.

Accordingly, it will be effective to prescribe the provision in the internal rules to prohibit in principle a sales representative from conducting solicitation or receiving orders through his/her personal mobile phone where fixed-line telephones and corporate mobile phones with the recording function are available for use by such sales representative.

In the case of conducting solicitation by company telephone without a recording function, it is considered appropriate for the sales representative who made solicitation not to receive orders on the day of solicitation, and for a manager to receive orders from the relevant elderly customer on the next day of such solicitation or thereafter. Please refer to Q1 for the reasons and considerations.

In the case of conducting solicitation or accepting orders by company telephone without a recording function, it is considered necessary for the sales representative and the manager in charge to record the date, time, main discussion, details of orders, etc. in relation to such conversations with elderly customers.

The method of recording and the extent of content to be recorded should be determined by each member company within the scope required for subsequent monitoring and confirmation of the contents of conversations in accordance with their operational conditions, business scale, infrastructure such as IT system, etc.

<p>Q3: What kind of rules can be considered when soliciting an elderly customer for the Products Requiring Cautious Solicitation at the counter of a branch office?</p>

A: When an elderly customer who visits a branch for investment or consultation is accompanied by his/her family, the order may be accepted by receiving a purchase instruction form from the elderly customer after obtaining the signature of consent on the purchase instruction form from the accompanying family member to the effect that they agree on the purchase of the relevant product as is the case with the Q1 of solicitation visit discussed above. In this case, the sales representative may take the order alone.

However, elderly customers may not always be accompanied by their family. Then, it would be appropriate for not only the sales representative but also a manager to attend the meeting in person and

confirm whether the elderly customer fully understands the solicitation made by such sales representative. Under such circumstances, if the elderly customer wishes to purchase the Product Requiring Cautious Solicitation solicited by the sales representative on the spot, the purchase instruction form signed by the elderly customer shall suffice.

At this time, it is inappropriate for such manager to make an active solicitation (explanation). Therefore, the manager in charge must focus solely on ensuring that appropriate solicitation is being made by the sales representative and the elderly customer fully understands such explanation.

For the solicitation at the counter of a branch as is the case with Q1, it is considered necessary to record and store conversations among the elderly customer, his/her family member, or manager present including the customer's appearances and behaviors.

On the other hand, if an elderly customer is not accompanied by his/her family and the relevant manager is unable to attend the explanation, it is considered appropriate for the sales representative to only solicit for products on the spot and to accept any order by telephone or other means on or after the next day of such solicitation. In that case, please take actions in conformity with the descriptions discussed in Q2.

Incidentally, where an elderly customer, for whom prior approval from the relevant manager has not been obtained, visits the branch alone without appointment when such manager is absent, the sales representative may conduct solicitation to the extent requested by such elderly customer when requested an explanation regarding the Products Requiring Cautious Solicitation. In this case, please report such situation to the manager in charge after the event and consult about appropriate future response. Please also refer to Q5.

Q4: Is it necessary to establish rules specifically for Internet transactions with elderly customers?

A: With regard to the restrictions on transactions by elderly customers over the Internet, it is more concerned with the fact whether or not such solicitation prior to the transactions is pertinent to the "Sales through Solicitation" as stipulated in Article 6-3 of the Regulations for Direct Offering, etc. prior to placing orders, than the act itself of placing orders through the Internet. If the sales representative solicits an elderly customer for the Products Requiring Cautious Solicitation, regardless of the means in which the elderly customer places an order, Internet or not, such solicitation must be approved in advance by the relevant manager.

On the other hand, when an elderly customer voluntarily chooses to place an order over the Internet by logging in with his/her own ID and password and entering the product name and quantity or amount after receiving solicitation from the sales representative, the Guidelines do not apply to such order received. Therefore, procedures for confirmation and communication of orders received and transaction results by the managers on and after the next day will not be necessary.

However, despite prior approval obtained from the relevant manager before the solicitation, it goes without saying that it is contrary to the intents of the Guidelines for a sales representative to induce an elderly customer to engage in Internet transactions in order to avoid such procedures. It may be recommended to monitor whether or not any transaction involving solicitation by a sales representative with prior approval obtained from the relevant manager has been induced to be placed over the Internet by the sales

representative.

In the event that a sales representative does not conduct any solicitation for the Products Requiring Cautious Solicitation to an elderly customer and such elderly customer voluntarily engages in Internet transactions following the indication and services on the website, the Guidelines shall not apply unless the indication and services on the website provided by the Full Member are equivalent in nature and quality to those solicitations to be made by the sales representatives in terms of product examination, product selection, information gathering, and decision on purchase that is performed by the elderly customer. As of October 2015, no indication or services corresponding to the above definition have been identified.

However, it should be noted that any new type of indications and services on the Website based on new technology or the like that we have not examined at the present time may be subject to the Guidelines if such new indications and services are deemed to be equivalent in nature and quality to those solicitation to be made by a sales representative.

Q5: What should we do if we receive an order from an elderly customer at a small business office where a relevant manager is not stationed, or if such manager is absent when an order is received from an elderly customer?

A: As described in Q1, Q2, and Q3, when a family member is not present, it will be necessary for the sales representative in charge not to take an order alone but for the relevant manager to check whether or not the elderly customer understands the contents of the product before accepting the order. However, the manager may not be always available or present. In such case, it is not desirable to have an elderly customer wait for a long time.

Accordingly, it is important to develop measures in order to conduct business with elderly customers and accept their orders in a proper and smooth manner under various circumstances that may arise in a small business office, etc.

For example, when determining the responsible managers in charge of receiving orders per each section such as division, group, etc., the order of such acting managers may be prescribed for the situation where any one of them is absent. Further, if there is no relevant manager permanently stationed or an acting manager available at a business office, it should be considered to designate and authorize in the internal rules managers in a nearby branch or at the headquarters for receiving orders.

Since the role of the manager in charge is to receive orders after ensuring that the elderly customer has a sufficient understanding of the product concerned, it is not considered appropriate for an unauthorized person to receive the orders in the absence of such assigned manager.

Naturally, any person who is not a registered sales representative shall not receive any order, because the act of receiving an order is regarded as an act of sales.

Q6: For each case of solicitation by customer visit, telephone, or at the counter of branch office, if an elderly customer wishes to make a purchase of the Products Requiring Cautious Solicitation on the day of such solicitation, how should we respond?

A: In principle, it is considered appropriate to receive orders from elderly customers on the day following solicitation or thereafter for the Products Requiring Cautious Solicitation.

However, given the possibility of problems arising from taking a uniform approach, it is considered that there may be cases to be excluded from the procedures mentioned above where such an elderly customer sufficiently understands the characteristics of the relevant product with the past investment experience in the products of the same kind and has unavoidable reason to request purchase on the day of solicitation.

However, the scope of the exception must not be set so wide as to injure the intent of establishing the internal rules for solicitation to elderly customers.

Example of exceptional cases to be permitted may include the following; however, each member company should properly specify such cases in light of its business conditions, size, customer distribution, etc.

Furthermore, it should be noted that all cases are subject to the prior approval of the relevant managers in charge and that the sales representatives must be assured that there are no issues concerned with the elderly customers' health and their understanding of the products.

Even in the following exceptional cases, if such elderly customer intends to purchase a type of product for which she/he has no investment experience in the past or intends to make an investment that is significantly larger in monetary amount than those of the past, it is necessary to take prudent actions as follows: for the sales representative to consult the relevant manager on the appropriateness of the order received on the same day of solicitation and for such manager to confirm the customer's intention if appropriate.

<Exceptional cases where same-day order can be accepted>

- Where proposal is made for a purchase on the following day of solicitation for the Products Requiring Cautious Solicitation, a customer wishes to purchase the product on the same day due to unavoidable reason for the request of same-day purchase while fully understanding the product attributes (e.g., the customer will be absent from the next day due to travel; additional purchase of the same product already held by such customer, so-called roll-over investment after the redemption of the product held by the customer including the instance where proceeds are temporarily deposited into an MMF denominated in the same currency, etc.).

5. Communication and confirmation of the details of a transaction, and continuous condition check

Q1: When, how, and by whom should the communication and confirmation as to the details of a transaction be usually made when solicitation for sale was made to an elderly customer aged 80 or over?

A: As a general rule, when conducting solicitation and entering into a contract with elderly customers aged 80 years or more for any Products Requiring Cautious Solicitation, the sales representative shall conduct solicitation with the prior approval of the relevant manager in accordance with its internal rules, and enter into the contract after allowing the customer a period of contemplation for such solicitation and the customer intention being confirmed by the manager. However, the elderly customer may become uncertain about the transaction due to the change of his/her physical condition, memory, understanding, etc. after the event.

Therefore, it will be appropriate that a person other than the sales representative who solicited the elderly customer should contact and confirm with such elderly customer about the details of the transaction to make

sure that such elderly customer is aware of the transaction. It is not always necessary to communicate and confirm the contents of each transaction in relation to all elderly customers. Taking into account the attributes, transaction records, etc. of the relevant elderly customer, internal rules may be specified regarding the type of customers, frequency, method (including recording method) and the person who performs such duties according to the level of each customer's risk (Note 1).

Although communication and confirmation as to the details of transactions must be made by a person other than the sales representative (Note 2), it is acceptable for the sales representative to inform the elderly customer in advance of such communication from the relevant manager, etc. or to attend the meeting or telephone call to be made by such manager.

Meanwhile in the event that such elderly customer is found not to remember all or part of the contents of the contract or to have a different understanding (such as "I did not ask you to buy.", etc.) at the time of communicating and confirming the details of the transaction, it is essential to immediately report the matter to the internal control manager, etc. and consult them about future response.

(Note 1) It is possible to conduct this communication and confirmation as to the details of transactions at the same time as continuous condition check discussed in Q2. However, in such a case, as described in Q2, it is necessary for a person who is capable of making an appropriate judgment regarding the customer management and the appropriateness of transactions to do so. For example, a person who performs internal control as part of daily customer and transactions management may assume the responsibility, or a sales manager in charge of granting prior approval at the time of solicitation may assume such responsibility.

(Note 2) When a manager is also a sales representative for an elderly customer, it is considered desirable in principle for another manager to communicate and confirm the details of a transaction. However, where such manager in a certain or higher position is designated as appropriate by the member company in light of their professional experience and other factors, the relevant manager may communicate and confirm the details of the transaction to his/her own elderly customer.

<p>Q2: Do we need to conduct condition check of elderly customers on a continuing basis? And when doing so, how do we conduct continuous condition check?</p>

A: Since memory, comprehension, physical conditions, etc. of elderly customers may change in a relatively short period of time while more prudent attention is required for their cash flow, financial assets held, and changes in investment policy, it is considered necessary for the member company to keep track of their condition.

The following may be considered as items to be examined at the time of the continuous condition check:

- (a) To check whether elderly customers fully recognize their own transactions and the current status of products held by them (e.g., market prices, valuation gain or loss, market environment, etc.);
- (b) To examine the health conditions, ability to memorize and understand in relation to making investment decisions, etc., and any changes thereto concerned with elderly customers;
- (c) To check whether there is any change in the cash flow status of and financial assets held by elderly

customers, as well as their investment policy.

Based on the review discussed in (a) through (c) above, it should be discussed whether additional measures are required for any customers subject to the Guidelines.

In addition, it is necessary for a person who is capable of customer management and making a proper judgment on the appropriateness of any transactions such as a person in charge of internal control or a sales manager, to perform the continuous condition check(*).

With regard to the continuous condition check,

- (i) taking into account the attributes and transaction records, etc. of the relevant elderly customer, internal rules may be specified regarding the type of customers, frequency, method (including recording method), and the person who performs such duties according to the level of each customer's risk;
- (ii) It is considered acceptable for the sales representative to inform the elderly customer in advance or to attend the meeting as is the case with the communication and confirmation of the transaction details discussed in Q1.

Also, communication and confirmation of the details of the transaction discussed in Q1 may be conducted on the same occasion as the continuous condition check.

* When a manager is also a sales representative for an elderly customer, it is considered desirable in principle for another manager senior to such manager to conduct the condition check. However, where such a manager in a certain or higher position is designated as appropriate by the member company in light of their professional experience and other factors, the relevant manager may conduct the condition check on an ongoing basis.

6. Monitoring

Q1: Is it necessary to perform monitoring over the sales solicitation for elderly customers? If so, what should we do?
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A: It is necessary to ensure whether the internal rules established for elderly customers are being properly implemented. Moreover, by not only conducting formalized check but also examining the details of conversations and reactions of elderly customers, we can expect the benefit of improving our business approach and preventing any trouble from occurring.

With regard to the monitoring, it is recommended to implement by combining daily and monthly inspections at branch offices with inspections and audits at regular intervals in accordance with the prevailing circumstances pertinent to the business operation and size of each member company, with the main checking items being (i) whether or not transactions are being conducted in accordance with the prescribed approval and contracting process and (ii) whether or not there is any inappropriate transaction from the perspective of suitability and reasonableness.

Specifically, the following can be considered; inspection of the transaction details, playback of the recorded conversations, reference to the meeting record, inspection of the accepted "purchase instruction form," etc. It is also considered to be effective for the internal control manager and other managers to

interview elderly customers.

Q2: What should we do in inspecting the transaction details?

A: It is important to monitor transactions with elderly customers, for example, by contract date. In light of the frequency, amount of money involved, type of products, etc. in relation to the past transactions with such elderly customers, as well as their assets under custody, it is considered possible to ascertain whether any major change has occurred to such elderly customers or whether such elderly customers are engaged in reasonable transactions or subject to aggressive solicitation by checking the records of telephone conversation, order receipts, etc. (hereinafter collectively referred to as the “Communication Records”) as appropriate in order to inspect whether such elderly customers are engaged in any doubtful transactions, such as a sudden high-value transaction or repeated transactions in a short period of time. It is also important to examine the reasonableness of transactions from the chronological viewpoint rather than from a fixed point in time.

Q3: Do we need to check compliance with internal rules for all transactions with elderly customers?

A: As to whether or not a sales representative is engaged in appropriate solicitation, it is considered desirable to examine the Communication Records of all transactions concerned with the Products Requiring Cautious Solicitation by elderly customers, by playing back records of telephone conversation among others. However, in reality, it may be difficult to check all the Communication Records. Therefore, it is conceivable to conduct monitoring of the Communication Records by selecting and specifying the elderly customers and types of products subject to such monitoring according to their attributes, characteristics, and so on. For example, you may select transactions to be monitored from the following:

- (i) High-value transactions and transactions of specially complex structure;
- (ii) Transactions of very old customers; and
- (iii) Those conducted by an elderly customer engaged in transactions frequently; etc.

In addition to reviewing the transactions relevant to the descriptions above, it will also be effective to sample elderly customers at random for the examination so that transactions concerned with a large number of sales representatives can be reviewed within a certain period of time.

Q4: Do we have any obligation to keep the Communication Records? If so, how many years should we keep them?

A: Because the Communication Records may be used not only for examining (monitoring) whether sales representatives, etc. properly comply with the internal rules, but also as confirmation materials when inquired about the situations surrounding the relevant transaction by the elderly customers themselves or their family members at a later date, it is considered desirable to set a sufficient safekeeping period according to the circumstances of each member company.

7. Handling of customers excluded from application of the Guidelines in accordance with Internal Rules

Q1: How should we handle the customers who are excluded from application of the Guidelines in accordance with the procedures set forth in the internal rules?

A: Those elderly customers who are excluded from application of the Guidelines in accordance with the procedures set forth in internal rules may also experience changes in their memory, comprehension, etc. over time. In addition, their financial conditions, investment policy, and others may have changed significantly.

Accordingly, it is necessary to continuously observe the transactions, etc. of customers who are not subject to the Guidelines in accordance with the internal rules, and if there is any remarkable change in the details of transactions, or if there is any sudden incidence of large deposits or withdrawals, losses, etc., the persons in the internal control division or the managers appointed by such person shall check the current status of the elderly. Where there is a change confirmed in the situation of the relevant elderly customer, the member company shall take suitable actions, such as removing the customer from the list of those excluded from the application of Guidelines and start treating him/her according to the ordinary procedures.

End.

Supplementary Provision

This amendment will come into effect on October 13, 2016.

* The amended section:

4. Location and Method of Solicitation; Answer to Q4

Supplementary Provision

This amendment shall come into effect on August 1, 2021.

* The amended section:

- Amendment to Q2 (i) and (iv) and Q3 of Section 1; Q2 of Section 2; Q1 and Q4 of Section 3; and heading and Q1 of Section 5
- Overall revision to Q2 of Section 5; and establishment of Section 7