

# Concept of Dispositions Against Sales Representatives

Established on July 15, 2021

## 1. Basic Concept

With regard to the Financial Instruments Intermediary Service under the Financial Instruments and Exchange Act, the Association will take dispositions against sales representatives (including dispositions against individual financial instruments intermediary service providers; hereinafter referred to as “Sales Representatives Disposition”). The main purpose of Sales Representatives Dispositions is to prevent the occurrence of any violation of laws and ordinances, etc. by sales representatives and to prevent the recurrence thereof, thereby securing fairness in transactions, etc. for public offering or private placement of investment trusts and thoroughly protecting investors, thereby contributing to the maintenance and improvement of confidence in the asset management business and the financial instruments exchange market.

The Association, therefore, has decided to sort out considerations to be taken into account in Sales Representatives Dispositions, and then clarify and break down them into patterns in order to ensure effectiveness of such Dispositions.

Based on this concept, elements to be considered in the examination of dispositions against sales representatives are summarized as stated in 2. below. It is expected that this arrangement will increase the transparency and predictability of dispositions against sales representatives and will also contribute to the improvement of compliance awareness among sales representatives with laws and ordinances, etc.

The following items are examples of factors to be taken into account in the examination of dispositions, and other items that are deemed necessary may be taken into consideration according to the content of the matter.

## 2. Factors to be Considered When a Disposition is Taken upon Occurrence of Violation of Laws and Ordinances, etc.

### (1) Seriousness of the act

The period and frequency (number of cases) of violation of laws and ordinances, etc., the number of persons engaged in such violation, the effect in terms of value (damage to customer assets), etc. shall be taken into consideration.

When it is determined that any violation of laws and ordinances, etc. has been committed for a long period of time or on a large scale, strict measures shall be taken accordingly.

### (2) Malicious nature of the act

#### (i) Presence or absence, and degree of willful intention or negligence

In any violation of laws and ordinances, etc., measures shall be taken in consideration of whether

such violation of laws and ordinances, etc. was committed intentionally, such as the case where it is recognized that there was a purpose of obtaining its own gain, or caused by carelessness or negligence such as a mistake in paperwork.

When the degree of willful intention or negligence is deemed serious, strict measures shall be taken accordingly. .

(ii) Position of the person engaged in the violation

The title of the violator of laws and ordinances, etc. shall be taken into consideration. For example, when the violator of laws and ordinances, etc. is a manager or the like, such as an officer in the financial instruments intermediary service provider, strict measures shall be taken accordingly in consideration of the position in the same industry, level of responsibility, and other factors.

(iii) Repeatability, and presence or absence of similar indication in the past

When any similar violation of laws and ordinances, etc. is repeatedly committed or when any similar violation has been pointed out in a past administrative inspection or inspection by a self-regulatory organization, etc., measures shall be taken in consideration of responses to the previous notice and the status of corrective measures taken.

If there is any substantial imperfection in the subsequent response, such as failure to take appropriate improvement measures, or if the previous indication has been overlooked, strict measures shall be taken accordingly.

(3) Impact of the act

(i) Extent of loss of confidence in the asset management business

Measures shall be taken in consideration of the extent to which investors' confidence in the asset management business may be lost, such as the fairness of transactions, in the public offering or private placement of investment trusts.

In the event that the impact on investors is deemed material and the credit of the asset management business is deemed substantially impaired, strict measures shall be taken accordingly.

(ii) Effect on customers, presence or absence of complaints from customers

Measures shall be taken in consideration of the content and extent of losses imposed on customers and the status of complaints from customers regarding violation of laws and ordinances, etc.

In the event that the impact on customers is deemed serious, such as a serious concern arising about the protection of customer assets, etc. due to a great number of customers subject to the violation of laws and ordinances, etc. and a huge amount of effects, strict measures shall be taken accordingly.

(4) Awareness and attitude about compliance with Laws and Ordinances, etc.

Measures shall be taken in consideration of recognition of Laws and Ordinances, etc., compliance

awareness, and attitude with regard to violation of Laws and Ordinances, etc.

In the event of any lack of awareness of compliance with Laws and Ordinances, etc., strict measures shall be taken accordingly.

(5) Status of response to violation of laws and ordinances, etc.

(i) Background to discovery of violation of Laws and Ordinances, etc.

It is taken into account whether the violation of laws and ordinances, etc. was discovered through an administrative inspection or an inspection by a self-regulatory organization, or through a self-inspection, etc.

In principle, while when the violation was discovered through an administrative inspection or an inspection by a self-regulatory organization, strict measures shall be taken accordingly, mitigation measures may be considered when the violation was discovered through a self-inspection, etc.

(ii) Status of corrective measures after discovery

Measures shall be taken in consideration of responses made after any violation of laws and ordinances, etc. was discovered, such as restoration to original state, and the status of improvement to prevent the recurrence.

When it is recognized that immediate and appropriate corrective measures have been taken, it may be considered as a mitigating factor. In addition, if corrective measures are considered insufficient, including the lapse of time, after the discovery of violation of Laws and Ordinances etc., the measures may be taken as an aggravating factor.

(6) Whether or not antisocial forces are involved

When any antisocial force is involved in any violation of Laws and Ordinances, etc., strict measures shall be taken accordingly.

(End)