Guidelines on Accountability of Investment Trust Management Company pursuant to the Act on Provision of Financial Services

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I. Purpose of the Guidelines

This Guidelines indicate practical examples and considerations in exercising accountability required of financial instrument distributors, etc. as provided for in the Act on Provision of Financial Services (Act No. 101 of 2000; hereinafter referred to as the “Financial Instruments Sales Act”) when an investment trust management company (entity as prescribed in Article 2, Paragraph 11 of the Act on Investment Trusts and Investment Corporations: Act No. 198 of 1951; the same shall apply hereinafter) engages in offerings, etc. (offering or private placement; the same shall apply hereinafter) of the beneficiary certificates of an investment trust established by such investment management company.

II. Summary of Accountability pursuant to the Financial Instruments Sales Act

1. Under the Financial Instruments Sales Act, when an investment trust management company intends to make a public offering, etc. of beneficiary certificates of an investment trust established by itself, it must explain the following matters (hereinafter referred to as the “Significant Matters”) to customers before such offering, etc. of beneficiary certificates are made.

   (Article 3, Paragraph 1 of the Financial Instruments Sales Act)

   (i) If the relevant sale of financial instruments involves the risk of incurring a loss of principal, due to fluctuations in the interest rate, the value of currencies, quotations on a financial instruments market (meaning a financial instruments market as prescribed in Article 2, Paragraph 14 of the Financial Instruments and Exchange Act (Act No. 25 of 1948; hereinafter referred to as the “FIEA”), or any other indicators as the direct cause thereof, the following matters must be explained:

   (a) The fact that there is a risk of incurring a loss of principal;

   (b) The relevant indicator; and

   (c) The important portions of the structure of transactions pertaining to the relevant sale of financial instruments that generate the risk of incurring a loss of principal with fluctuations in the indicator set forth in sub-item (b) as the direct cause thereof:

   [Price Fluctuation Risk]

   (ii) If sale of the relevant financial instruments involves the risk of incurring a loss of principal directly caused by changes in the status of the business operations or assets of the person carrying out that sale of financial instruments or any other persons, the following matters must be explained:

   (a) The fact that there is a risk of incurring a loss of principal;

   (b) The relevant person; and

   (c) Important portions of the transaction structure pertaining to the sale of the relevant financial instrument that contain the risk of incurring a loss of principal directly caused by changes in the status of business operations or assets of the person set forth in sub-item (b):

[Credit Risk]

(iii) In addition to what is provided for in items (i) and (ii), if sale of the relevant financial instrument involves the risk of incurring a loss of principal directly caused by the grounds that are specified in the Order for Enforcement of the Act on Sales, etc. of Financial Instruments (Cabinet Order No. 484 of 2006; hereinafter referred to as the "Cabinet Order") as important factors that can influence the customers' judgment, the following matters must be explained:

(a) The fact that there is a risk of incurring a loss of principal;

(b) The relevant ground(s); and

(c) Important portions of the transaction structure pertaining to the relevant sale of financial instrument that contain the risk of incurring a loss of principal, with the grounds set forth in sub-item (b) as the direct cause thereof;

(iv) If there is any period during which the exercise of the rights pertinent to the concerned financial instruments or cancellation of the sale contract pertaining to such financial instruments is restricted, a statement to that effect shall be provided.

[Restriction concerned with Period for Exercise of Rights and Cancellation of Contract]

2. The explanation prescribed in the preceding paragraph must be provided in a manner and to the extent necessary for the customer to understand them according to such customer's knowledge, experience, financial status, and objective for concluding such contract pertaining to the relevant financial instrument. (Article 3, Paragraph 2 of the Financial Instruments Sales Act)

(Note) The heading in parentheses [ ] is not included in the provisions of the Financial Instruments Sales Act but added in the Guidelines.

III. Contents of Explanation

1. Basic Concept

The Financial Instruments Sales Act does not provide for any specifics on the Significant Matters to be explained to customers, but investment trust management companies are required to explain such Significant Matters to a large number of customers to such an extent that they can understand them.

2. Practical Handling

In consideration of the fact that investment trust management companies are required "to explain such Significant Matters to a large number of customers to such an extent that they can understand them," the contents of Significant Matters to be explained and examples of specific explanation at the time of offering, etc. of each beneficiary certificate shall be as follows:

○ Beneficiary Certificates

Beneficiary Certificate of Investment Trust	Price fluctuation risk	Credit risk	Restriction concerned with period for exercise of rights or cancellation of contract
Investment trusts whose main assets are domestic stocks	- Base value fluctuation risk of beneficiary certificate of investment trust - Price fluctuation risk of the shares under investment	- Credit risk concerned with the issuers of shares under investment	——
Investment trust that mainly invests in yen-denominated public and corporate bonds and does not invest in shares, private equities, etc. or assets denominated in foreign currencies.	- Base value fluctuation risk of beneficiary certificate of investment trust - Price fluctuation risk of the bonds held as investment	- Credit risk of the issuers of the bonds held as investment	——
Investment trust whose main assets are stocks and general bonds denominated both in yen and foreign currencies	- Base value fluctuation risk of beneficiary certificate of investment trust - Price fluctuation risk of the securities under investment - Exchange rate risk	- Credit risk of the issuers of securities held as investment	——

(Note) Beneficiary certificates of other types of investment trusts may require different explanation.

(Examples of specific explanation)

[Investment trust whose main assets are domestic stocks]

- This investment trust mainly invests in domestic stocks. Since the base value fluctuates depending on price movements, etc. of invested shares, the base value may fall below the initial investment price. Moreover, there may be a loss of the principal due to changes in the management and financial conditions concerned with the issuers of the shares held under investment, as well as due to changes in the external evaluation thereof.
- This investment trust mainly invests in domestic stocks. Loss may be incurred due to fall in the base value caused by price decline of the shares under investment or deterioration in the credit standing of the issuers of such shares.

[Investment trust that mainly invests in yen-denominated public and corporate bonds, and does not invest in shares, private equities, etc. or assets denominated in foreign currencies]

- This investment trust mainly invests in yen-denominated public and corporate bonds. Since the base value of this investment trust fluctuates depending on price movements of invested bonds caused by fluctuations, etc. in interest rates, the base value may fall below the initial investment price. Moreover, there may be a loss of the principal due to changes in the management and financial conditions concerned with the issuers of the bonds held under investment, as well as due to changes in the external evaluation thereof.

- This investment trust mainly invests in yen-denominated public and corporate bonds. Loss may be incurred due to fall in the base value caused by price decline of the bonds under investment or deterioration in the credit standing of the issuers of such bonds.

[Investment trusts whose main assets are stocks and general bonds denominated both in yen and foreign currencies]

- This investment trust mainly invests in stocks and bonds that are denominated both in yen and foreign currencies. Since the base value of this investment trust fluctuates depending on price movements of bonds and shares held as assets, fluctuations of exchange rates, etc., the base value may fall below the initial investment price. Moreover, there may be a loss of the principal due to changes in the management and financial conditions concerned with the issuers of the shares or bonds held under investment, as well as due to changes in the external evaluation thereof.
- This investment trust mainly invests in stocks and bonds that are denominated both in yen and foreign currencies. Loss may be incurred due to a decline in the base value caused by fall in prices of stocks and bonds held as investment assets (also subject to exchange rate fluctuations in case of foreign currency-denominated securities) or deterioration in the credit standing of the issuers thereof.

○ Explanation, etc. concerned with beneficiary certificates of investment trust denominated in foreign currencies:

(a) Beneficiary certificates of investment trust denominated in foreign currencies

With regard to beneficiary certificates of investment trust denominated in foreign currencies, in addition to the items described above, it is considered necessary to explain the risk of exchange rate fluctuations, since the base value may fall short of the initial investment principal due to the calculation of such base value made in foreign currencies.

(b) Beneficiary certificates where a loss of principal may occur due to a change in the business or credit conditions of a third party

With respect to the beneficiary certificates where a loss of principal may occur due to a change in the business or credit conditions of any third party other than those mentioned above, it is considered necessary to explain such third party’s credit risk in addition to the items described above.

[Examples of specific explanation for beneficiary certificates with guarantee]

- This investment trust mainly invests in stocks and bonds that are denominated both in yen and foreign currencies. The base value of this investment trust fluctuates subject to such factors as price movements in the shares and bonds held as asset, exchange rate movements, and changes in the credit standing of the issuers of such shares and bonds. Therefore, the base value of this investment trust may cause a loss to the investment principal if it is sold before redemption. Moreover, there may be a loss of the principal due to changes in the management and financial conditions concerned with the issuer of the beneficiary certificates or guaranty company, as well as due to changes in the external evaluation thereof.

(c) Beneficiary certificates of investment trust where there are restrictions regarding the exercise period of rights or the timing of contract cancellation

With respect to the beneficiary certificates with restrictions on the exercise period of rights or the timing of contract cancellation, it is considered necessary to explain such restrictions on the exercise period or cancellation timing in addition to the items described above.

[Examples of specific explanation for investment trusts with closed period whose main assets are domestic stocks]

- This investment trust mainly invests in domestic stocks. Since the base value fluctuates depending on price movements, etc. of invested shares, the base value may fall below the initial investment price. Moreover, there may be a loss of the principal due to changes in the management and financial conditions concerned with the issuers of the shares held under investment, as well as due to changes in the external evaluation thereof. Please note that you cannot sell your investment during the closed period.
- This investment trust mainly invests in domestic stocks. Loss may be incurred due to fall in the base value caused by price decline of the shares under investment or deterioration in the credit standing of the issuers of such shares. Please note that you cannot sell your investment during the closed period.

(Note) Under the Financial Instruments Sales Act, it is not required to make any explanation as to the method of safekeeping customer’s subscription money, profits, sale proceeds, etc. Therefore, each of the investment trust management companies shall independently decide whether or not to explain that such subscriptions are not subject to the payment, etc. under the deposit insurance scheme or the investor protection fund, and therefore, that the investment trust management company is legally obligated to entrust the amount equivalent to such subscription to a trust company.

IV. Timing, etc. of Explanation

1. Basic Concept

The Financial Instruments Sales Act stipulates that the Significant Matters shall be explained “at or before the time that the sale of financial instruments is carried out.” In the case of a public offering, etc. of beneficiary certificates of an investment trust, it is appropriate to construe “at or before the time that the sale of financial instruments is carried out” as “at or before the time that the contract is concluded.” Therefore, it is recommended that an investment trust management company should explain the Significant Matters to customers before entering into any contract for the offering, etc. of beneficiary certificates. It should be noted that the investment trust management company is required to explain the Significant Matters to a large majority of general customers to such an extent that they can understand them.

2. Specific Considerations

As described above, an investment trust management company should explain the Significant Matters to the customers before entering into any contract for the offering, etc. of beneficiary certificates. However, from the viewpoint of "to explain the Significant Matters to a large majority of general customers to such an extent that they can understand them," it is necessary to pay attention to the following matters as to the timing of explanation.

(i) Where, after giving an explanation on the Significant Matters to a customer, such customer continues to participate in the offerings, etc. of the beneficiary certificates relevant to such explanation and it is considered that such customer continues to be cognizant of such Significant Matters, it is not always considered necessary to give an explanation of the Significant Matters each time an offering, etc. of similar nature is conducted. However, if requested by such customer, it is necessary to give an explanation of the Significant Matters to him/her.

"An offering, etc. of similar nature" means the offering, etc. of beneficiary certificates where the substance of the Significant Matters to be explained to customers is the same.

(ii) It is considered desirable to handle with care any offering of beneficiary certificates that are not widely known or where their structure is considered to be complicated or sophisticated.

V. Method of Explanation

1. Basic Concept

The Financial Instruments Sales Act does not provide for any specific method of explanation for the Significant Matters. Accordingly, an explanation of the Significant Matters can be made orally, in writing, or by other means.

However, regardless of the means of explanation, an investment trust management company is required to explain such Significant Matters to a large majority of general customers to such an extent that they can understand them.

(Note) Under the Financial Instruments Sales Act, it is not required to obtain any confirmation as to the fact that the explanation is given. Therefore, each company shall make its own decision as to whether or not to obtain such confirmation and obtaining method thereof if deciding to obtain such confirmation.

2. Specific Considerations

In consideration of the fact that the investment trust management company is required to "explain the Significant Matters to a large majority of general customers to such an extent that they can understand them," it is necessary to pay attention to the following points with regard to the method of explanation to be provided by the company.

(i) With regard to beneficiary certificates of investment trusts that are not well known or where structure is considered to be complicated or sophisticated, attention should be given to explain in accordance with the product attributes of such investment trusts in order to provide more detailed explanations.

(ii) When explaining the Significant Matters in writing, it is necessary to avoid confusing expressions as well as to take care to make the relevant descriptions noticeable.

VI. Instance where Explanation is not Required

1. Basic Concept

   Under the Financial Instruments Sales Act, it is not required to explain the Significant Matters when a customer is a person who is specified by a Cabinet Order as a person with professional knowledge and experience (hereinafter referred to as a "Specified Customer").

   In addition, if a customer who is not a Specified Customer expresses his/her intention not to receive any explanation on the Significant Matters, such explanation pursuant to the Financial Instruments Sales Act shall not be required.

   Since the Financial Instruments Sales Act does not provide for any method of expressing such an intention, a customer may express an intention orally, in writing, or by any other means.

(Note) Under the Financial Instruments Sales Act, it is not required to obtain any confirmation when a customer has expressed his/her intention not to receive any explanation. Therefore, each company shall make its own decision as to whether or not to obtain such confirmation and obtaining method thereof if deciding to obtain such confirmation.

2. Specific Considerations

   (1) Case of Specified Customer

   When a customer is a Specified Customer, it is not necessary to explain the Significant Matters. The Specified Customer is defined in Article 10 of the Cabinet Order as the "Financial Instruments Distributors, etc. or Professional Investor as defined in Articles 2, Item 31 of the FIEA."

   (2) Expression of intention not to receive explanation

   Considerations with respect to the expression of intention not to receive any explanation are as follows.

   (i) It is considered essential for a customer to express such intention after he/she understands the risk involved in the relevant beneficiary certificates. Accordingly, it is considered desirable to take actions such as explaining the Significant Matters to the customer if such customer has never received explanation on a similar type of beneficiary certificates and has no experience of dealing in such kind of products.

   (ii) It is considered desirable to handle with care any expression of intention not to receive explanation relating to the beneficiary certificates of investment products that are less known or whose structure is complex or sophisticated.

   (iii) The scope of beneficiary certificates for which the customer's intention for non-explanation can be expressed should be clarified.

   (iv) In the event that a customer requests an explanation of the Significant Matters after the customer has once expressed an intention not to receive any explanation, although it is not necessary to construe that the relevant intention has been withdrawn, it will be appropriate to conduct explanation on the Significant Matters.

VII. Approach according to Format of Transaction

Under the Financial Instruments Sales Act, it is required to explain the Significant Matters to a large majority of general customers to such an extent that they can understand them. From this viewpoint, the considerations according to each format of transaction are as follows:

1. Non-face-to-face transactions

   With regard to the explanation of Significant Matters in non-face-to-face transactions such as those through the Internet, ATM, Answer System, etc., it is necessary to take suitable measures according to respective transaction format with reference to the following examples.

   (1) Transactions on Internet

   For an explanation method for the Internet transaction, the following can be considered as examples:

   (i) At the time of account opening, etc., an investment management company shall explain the Significant Matters orally, in writing, or by any other means prior to conducting any transaction; and

   (ii) Significant Matters shall be displayed on the homepage screen.

   (2) ATM Transactions

   For an explanation method for the ATM transactions, the following can be considered as examples:

   - At the time of account opening, etc., an investment management company shall explain the Significant Matters orally, in writing, or by any other means prior to conducting any transaction.

   (3) Answer System Transaction

   For an explanation method for the Answer System transaction, the following can be considered as examples:

   (i) At the time of account opening, etc., an investment management company shall explain the Significant Matters orally, in writing, or by any other means prior to conducting any transaction; and

   (ii) Significant Matters shall be explained via the automatic voice system.

   (Note) In addition to the above, in order to respond to inquiries, etc. from customers, it is possible to take actions such as establishing an inquiry counter and notifying the customers of the contact information for any inquiry at the time of account opening, etc.

2. Transactions with Corporate Customers

   In case the customer is a corporation, it is recommended to explain the Significant Matters to the representative director or an authorized representative thereof (Manager of the Finance Department, etc.). In addition, it is necessary to obtain an expression of intention not to receive any explanation from such representative.

   When an intention not to receive any explanation is expressed, such expression is considered to be a corporate expression of intent and thus, not affected by any personnel change regarding the representative director or the authorized representative.

3. Transactions under General Transaction Agreements

   As for the General Transaction Agreement, it is considered that at the time of concluding such Agreement, the parties thereto have agreed to perform the General Transaction Agreement on a regular and routine basis thereafter. Consequently, it is considered unnecessary to explain the Significant Matters at the time of subsequent regular and routine transactions once the explanation of Significant Matters has been made prior to the conclusion of the Agreement.

However, it is considered necessary to provide the relevant explanation when any provision of the Agreement is to be revised.

VIII. Prohibition of Provision of Conclusive Evaluations by Financial Instruments Distributors, etc.

Under the Financial Instruments Sales Act, when a financial instruments distributor, etc. carries out sales, etc. of financial instruments on a regular basis, the relevant financial instruments provider, etc. must not engage in the act of providing a customer with conclusive evaluations on uncertain matters or with information that misleads the customer into believing the certainty of the uncertain matters with regard to the matters related to the relevant sales of financial instruments (hereinafter referred to as the "provision of conclusive evaluations, etc.") at or before the time that the sale of financial instruments is carried out.

(Article 4 of Financial Instruments Sales Act)

IX. Relationship to Other Laws, Regulations, etc.

1. Relationship to Accountability under FIEA

Notwithstanding the obligation of explanation under the Financial Instruments Sales Act, the investment trust management company must comply with the obligations set forth in the provisions of the FIEA, the Act on Investment Trusts and Investment Corporations, related governmental and ministerial ordinances, and the operational rules of the Investment Trust Association.

However, it is also possible to make an explanation under the Financial Instruments Sales Act, as well as these laws and regulations, and the Operational Rules and other Rules of Investment Trust Association. For example, if the prospectus of each beneficiary certificate contains the Significant Matters as provided for in the Financial Instruments Sales Act, an explanation pursuant to the Financial Instruments Sales Act may be made using such a prospectus.

2. Relationship to Principles of Suitability

Apart from performing the obligation of explanation under the Financial Instruments Sales Act, an investment trust management company shall endeavor to conduct solicitation activities for an investment suitable to the intention and actual circumstances of a customer in light of such customer's knowledge, investment experience, investment objectives, financial status, and purpose for concluding such contract for the specific financial instrument.

3. Relationship to General Principles of Civil Law

The Financial Instruments Sales Act provides for liability for damages, etc. of the Financial Instruments Distributor, etc. in the event of any damage to a customer arising from the failure to explain the Significant Matters or provision of conclusive evaluations, etc., on the part of the Financial Instruments Distributors, etc., thereby alleviating the burden of proof on such customer in court. Consequently, the Financial

Instruments Sales Act does not prevent claims for damages based on the general principles of the Civil Code.

Accordingly, an investment trust management company should pay attention to the judicial precedents that have been accumulated in connection with the offering, etc. of beneficiary certificates and should consider the investment experience, objectives, financial resources concerned with the relevant customer, the nature of the product, and the format of transactions so that such customer can correctly recognize the risk inherent in a specific transaction.

End.

Supplementary Provision

The Guidelines come into effect on April 1, 2001.

Supplementary Provision

This amendment will come into effect on January 19, 2007.

Supplementary Provision

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

Supplementary Provision

The amendments shall come into effect on October 1, 2008.

Supplementary Provision

This amendment will come into effect on March 19, 2009.