

Business Operation Standards on Securities Investments Related to Real Property

November 26, 2008

Resolution of the Board of Directors

Partially amended on March 25, 2009
Partially amended on September 30, 2009
Partially amended on February 27, 2013
Partially amended on April 23, 2014
Partially amended on June 14, 2019

If a member manages business pertaining to discretionary investment contracts or investment advisory business for investments in securities whose underlying assets are real property (hereinafter referred to as “Real Property Securities”), the standards set forth below (hereinafter referred to as these “Standards”) apply instead of the Standards to Be Taken into Account in Performance of Business Operations (Resolution of the Board of Directors on February 27, 1991).

The term Real Property Securities as used in these Standards means investment targets provided in Article 7, item (vii) of the Cabinet Office Order on Financial Instruments Business, etc. (hereinafter referred to as the “FIB Cabinet Office Order”) and preferred equity securities provided in Article 2, paragraph (1), item (viii) of the Financial Instruments and Exchange Act (hereinafter referred to as the “FIEA”) whose specified assets are real property or real property trust beneficiary interests.

1. Duty of Loyalty

Members must base their business operations on performing services for customers (which refer to customers pertaining to discretionary investment contracts or investment advisory contracts that members have concluded; the same applies hereinafter) with due loyalty.

Members are required to ensure the fairness and appropriateness of business pertaining to discretionary investment contracts or investment advisory business. To this end, members are required to prevent acts in conflict of interest, such as damaging a particular customer’s interests in the interest of another customer and giving priority to its own interests. In addition, if a customer is a vehicle under an investment scheme, members are required to pay attention to their relationships with that customer and also with investors of that customer.

2. Transactions at a fair price

When a member invests in Real Property Securities for a customer or provide advice on an investment decision of a customer on Real Property Securities, or when a member conducts a transaction in Real Property Securities on its own account, the investment or advice must be based on a fair price (a market price or a price judged to be appropriate with all situations considered; the same applies hereinafter.)

When a member evaluates the price of Real Property Securities for a customer in relation to its business pertaining to discretionary investment contracts or investment advisory business, it shall be based on an appropriate process so as not to impair the customer’s interests.

3. Prohibition of Compensation for a Loss and Provision of Special Benefits

Members shall pay attention to the provisions of Article 38-2, item (ii), Article 41-2, item (v), and Article 42-2, item (vi) of the FIEA, and specify in each contract in advance that they do not compensate for any loss or provide special benefits, whether directly or indirectly, even after the fact.

- (a) Members shall include in each discretionary investment contract a clause of the same purport as that of Article 11 of the sample discretionary pension investment contract (approved by the Board of Directors on March 28, 1990). Members shall take the same measures at the time of novation with respect to contracts already concluded, and strive to take the same measures in the case of contracts that are automatically renewed without changes to contract details.
- (b) Members shall take measures for investment advisory contracts in the same manner as in (a) by including a clause of the same purport as that of Article 6, paragraph (2) of the sample investment advisory contract (for investment advisory business) (approved by the Board of Directors on May 30, 1990).

4. Prevention of Transactions Involving Conflicts of Interest

- (1) A member shall not, in relation to its business pertaining to discretionary investment contracts, conduct any purchase and sales of Real Property Securities with a customer to which the member or its officer or employee acts as the other party.

Note, however, that pursuant to the provisions of Article 128, item (ii) of the FIB Cabinet Office Order, this does not apply if the member conducts the transaction appropriately with consent of the right holder referred to in that item so as not to impair the customer's interests or confidence.

- (2) A member shall not, in relation to investment advisory business, conduct any purchase and sale of Real Property Securities with a customer to which the member or its officer or employee acts as the other party.

Note, however, that pursuant to Article 41-3 of the FIEA and Article 16-8 of the Order for Enforcement of the Financial Instruments and Exchange Act (hereinafter referred to as the "FIEA Enforcement Order"), this does not apply if the member conducts the transaction appropriately so as not to impair the customer's interests and confidence and discloses to the customer that the transaction is with the member or its officer or employee when providing advice.

- (3) If a member conducts for a customer, or advise a customer to conduct, any purchase and sale of Real Property Securities with the member's Related Juridical Person, etc. (meaning a "Parent Corporation, etc." specified in Article 31-4, paragraph (3) of the FIEA; a "Subsidiary Corporation, etc." specified in Article 31-4, paragraph (4) of the FIEA; and a "Related Foreign Juridical Person, etc." specified in Article 126, item (iii) of the Cabinet Office Order on Financial Instruments Business, etc. (hereinafter referred to as the "FIB Cabinet Office Ordinance"; the same applies hereinafter), the member shall pay attention not to give rise to any conflict of interest with the customer under Article 44-3, paragraph (1), item (iii) of the FIEA.

If a member conducts the transaction or gives the advice, the member shall disclose to the customer that the transaction is with the member's Related Juridical Person, etc. in advance or promptly after the fact, or at the time of providing the advice.

- (4) When a member conducts the transaction or gives the advice referred to in (1), (2) or (3) above, it needs to be explainable that the transaction is at a fair price based on an objective real property appraisal or the like by a third party.
- (5) If a customer is the Subject Person defined in Article 16, paragraph (1), item (x) of the Cabinet Office Order on Definitions under Article 2 of the Financial Instruments and Exchange Act (hereinafter referred to as the “Ordinance on Definitions”; the same applies hereinafter), the member must give the customer the Subject Right defined in that item as the party from which the consent referred to in (1) above is obtained or to which the disclosure referred to in (3) above is made.

If a customer is a Notifier of Specially Permitted Services provided in Article 63, paragraph (3) of the FIEA, the member must request the customer to notify or directly notify matters pertaining to the consent referred to in (1) above or the disclosure referred to in (2) or (3) above to the equity holder of any collective investment scheme under which the customer is the proprietor.

- (6) If a member conducts the transaction or provides the advice referred to in (1), (2) or (3) above, the member must confirm the status of compliance with each of the provisions.
- (7) If a member invests in a collective investment scheme under which a customer is the proprietor, the member shall pay attention to 6. below to ensure the fairness in relation to other customers.

If a member invests in Real Property Securities on its own account, the member shall pay attention not to damage the soundness of its financial position.

5. Transactions between Assets under Management

- (1) Members shall not conduct any purchase and sale of Real Property Securities between customers’ assets under management pertaining to discretionary investment contracts, and between customers’ assets under management pertaining to discretionary investment contracts and REIT (real estate investment trust) assets under management for which the member conducts investment management business.

Note, however, that pursuant to the provisions of Article 129, paragraph 1, item (ii) or (v) of the FIB Cabinet Office Order, this does not apply if the member conducts the transaction appropriately with consent of the right holder referred to in that item, paying attention to securing fairness among customers.

Attention shall be paid that a member that has conducted the transaction is required to include the transaction in its investment report as a transaction it has conducted with “other Investment Properties” specified in Article 134, paragraph (1), item (vi), sub-item (b) of the FIB Cabinet Office Ordinance as matters to be stated in an investment report.

- (2) If a member conducts a purchase and sale between a customer’s assets under management pertaining to a discretionary investment contract and assets set forth below, the member shall pay attention not to give rise to any conflict of interest with the customer, and disclose to the customer that the transaction is conducted with assets that fall under any of (a), (b), (c), or (d) below in advance or promptly after the fact.
 - (a) Customer’s assets under management subject to investment advisory business conducted by the member
 - (b) Customer’s assets under management pertaining to a discretionary investment contract of

- a Related Juridical Person, etc.
- (c) Customer's assets under management subject to investment advisory business conducted by a Related Juridical Person, etc.
- (d) REIT assets under management subject to investment management business conducted by a Related Juridical Person, etc.
- (3) If a member provides advice intended for conducting a purchase and sale between assets under management of a customer subject to investment advisory business the member conducts and assets set forth below, the member shall pay attention not to give rise to any conflict of interest with the customer, and disclose to the customer that the transaction is conducted with assets that fall under (a) or (b) below in advance or promptly after the fact.
 - (a) Customer's assets under management pertaining to discretionary investment contracts of the member or its Related Juridical Person, etc.
 - (b) REIT assets under management subject to investment management business conducted by the member or its Related Juridical Person, etc.
- (4) If a member conducts the transaction or provides the advice referred to in (1), (2) or (3), the provisions of 4. (4), (5), and (6) apply mutatis mutandis.

6. Rules on Incorporating Real Property Securities

Members must pay attention to securing fairness among customers, such as by establishing rules on incorporating Real Property Securities, so that acquisitions do not compete among customers' assets under management.

7. Incorporating Subject Securities into Customer Assets

In cases in which a customer (excluding professional investors) entrusts to a trust company or a financial institution engaged in trust business (hereinafter referred to as a "Trust Company, etc.") with the management of the Customer Assets pertaining to operations conducted under a discretionary investment contract, the member may incorporate Subject Securities (whose underlying assets are real property) specified in Article 130, paragraph (3) of the FIB Cabinet Office Order into Customer Assets only if it satisfies all of the following requirements:

- (a) The member shall take any of the following measures that are necessary for the Trust Company, etc. to learn the true value of the Subject Securities:
 - A. Measures to ensure that the Trust Company etc. receives a notice on the value of the Subject Securities at least once every six months (or every three months if the customer is a surviving employees' pension fund) directly from the person who calculates the value
 - B. Measures to ensure that the Trust Company, etc. can check the value of the Subject Securities directly with the person who calculates the value
- (b) An external audit that satisfies the requirements provided in the Rules on Fund Audits (Resolution of the Board of Directors on February 27, 2013) shall be conducted on the Subject Securities.
- (c) The member shall take any of the following measures that are necessary for the Trust Company, etc. to be provided with the true audit report, etc. of the fund audit specified in (b):
 - A. Measures to ensure that the Trust Company, etc. is provided with the audit report, etc. of the fund audit directly from the person who conducts the fund audit
 - B. Measures to ensure that the Trust Company, etc. is provided with the audit report, etc. of the fund audit from the person who conducts the fund audit via a person other than the

member or the member's Related Juridical Person, etc.

- C. Other measures to ensure that the Trust Company, etc. is provided with the true audit report of the fund audit, by any of the following methods:
- a. The method of granting the Trust Company, etc. or the audit firm the right to view the audit report, etc. when they are posted on the website of a person related to the fund (In this case, if the Trust Company, etc. intends to inquire the audit firm to check the authenticity of the audit report, etc., the member shall take necessary measures for this.)
 - b. The method of including the Trust Company, etc. and the audit firm as recipients when a fund management company or the like sends the audit report, etc. as an e-mail attachment (in this case, if the Trust Company, etc. intends to inquire the audit firm to check the authenticity of the audit report, etc., the member shall take necessary measures for this.)
 - c. The method of sending the audit report, etc. via a corporation that is engaged in banking business in a foreign country (limited to those that have obtained a license under Article 4, paragraph (1) of the Banking Act, or other dispositions similar to this such as a permit) and can be trusted by the Trust Company, etc.

Attention shall be paid that in the case of incorporating Subject Securities in Customer Assets, the member must notify the Trust Company, etc. of the issue, volume, and value of the Subject Securities stated in an investment report the member has delivered to the customer under Article 42-7, paragraph (1) of the FIEA, without delay after the delivery to the customer.

8. Matters concerning Discretionary Investment Contracts with a Surviving Employees' Pension Fund

If a member concludes a discretionary investment contract with a surviving employees' pension fund, the member must comply with the matters set forth below. In addition, the member must pay attention to the matters stated in "VI-2-2-5 (4)" of the Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc.

- (a) If the member comes to know that a surviving employees' pension fund that is a customer of the member is likely to violate the duty of investment diversification under Article 39-15, paragraph (1) of the Former Cabinet Order for Employees' Pension Fund, the member shall notify the surviving employees' pension fund of that effect.
- (b) If the member receives an instruction from a surviving employee's pension fund on acquiring a specific financial instrument or any other specific transaction relating to investment of a Customer Assets in violation of Article 30, paragraph (3) of the Former Cabinet Order for Employees' Pension Fund, the member must not comply with the instruction.
- (c) The member has a sufficient system in place for, upon being presented with investment guidance by a surviving employees' pension fund (excluding professional investors), appropriately explaining the prospect of profiting and possibility of loss from management in accordance with the guidance based on the surviving employees' pension fund's knowledge, experience, state of assets, and the purpose of concluding a discretionary investment contract.
- (d) The member must not provide the surviving employee's pension fund with a conclusive assessment of a matter that is uncertain or provide with information that could mislead the customer into believing that a matter that is uncertain is actually certain, in relation to the investment of pension benefit funds.
- (e) The member shall strive to pay attention to the surviving employees' pension fund's ethics-related rules concerning the duties of its employees and officers.

9. Transactions in Securities by an Officer or Employee

A member that invests only in Real Property Securities (including a case in which a member handles rights relating to derivatives transactions for the purpose of hedging risks such as risk entailed in interest on borrowings by a customer that are incidental to investments in Real Property Securities, or a case in which investments are made in claims secured by real property such as specified corporate bonds provided in Article 2, paragraph (1), item (iv) of the FIEA whose specified assets are real property or beneficial interests in real property trusts (hereinafter referred to as the “Specified Corporate Bonds for Real Property”)) in relation to business pertaining to discretionary investment contracts or investment advisory business shall establish internal rules on transactions in securities conducted by its officer or employee on his/her own account that satisfy the minimum requirements specified in (a), (b) and (c) below according to the characteristics of the securities handled by the member, and strive to ensure that all its officers and employees know the rules.

If a member invests in both Real Property Securities and other securities, and its departments in charge of handling these respectively are separated from each other and information is appropriately blocked, the rules apply to officers and employees of the department that handles Real Property Securities.

- (a) Based on the purport of Article 117, paragraph (1), item (xii) of the FIB Cabinet Office Order, the rules prohibit transactions in securities solely in pursuit of speculative profits.
- (b) Based on the provisions of the Guidelines on Prevention of Insider Trading (Resolution of the Board of Directors on September 28, 1988), the rules set forth conditions that trigger restrictions on transactions in securities, persons subject to the restrictions, and details of the restrictions (e.g., notification system) in cases in which a possibility of acquiring corporate information has arisen.
- (c) A person responsible for the management shall be appointed

10. Entrustment of Business Pertaining to Discretionary Investment Contracts

If, pursuant to the provisions of Article 42-3 of the FIEA, a member entrusts the whole or part of the discretion to make investment decisions and of the authority necessary to make investments that are entrusted by a customer, the member shall pay attention to the following:

- (a) The entrustment must conform to the main purport of each discretionary investment contract that has been entrusted based on each customer’s trust in the member’s expertise in investment.
- (b) Matters necessary to perform the business in compliance with laws and regulations as well as the Association’s self-regulatory rules and other rules, must be specified in the entrustment contract and other relevant documents.
- (c) The entrustment contract must specify the scope of the entrusted party’s contractual responsibility that arises in the course of performing the business, and other matters necessary for preventing disputes or appropriately processing disputes.

11. Prohibition of the Lending of Money or Securities

Members shall pay attention to the provisions of Article 41-5 and Article 42-6 of the FIEA and must not lend money or securities to a customer in relation to business pertaining to discretionary investment contracts or investment advisory business, except for cases in which the customer is a professional investor defined in Article 2, paragraph (31) of the FIEA and Article 23 of the

Ordinance on Definitions (hereinafter referred to as a “Professional Investor”), or falls under Article 16, paragraph (11), item (iii) or Article 16-13, item (iv) of the FIEA Enforcement Order.

Attention shall be paid that if a member performs agency for business pertaining to a customer’s funding, or provides a customer with advice on funding, this may conflict with the prohibition provided in Article 41-5 and Article 42-6 of the FIEA.

12. Business Related to Investment Management

- (1) If a member invests in Real Property Securities for a customer pertaining to a discretionary investment contract, the member must strive to appropriately perform due diligence in order to properly identify the investment value of and risks associated with the real property that is the underlying assets, such as by establishing internal rules on the methods of conducting due diligence.
- (2) Any member that manages business pertaining to discretionary investment contracts whose investment targets are Real Property Securities must strive to identify the prices of real property that are underlying assets of customers’ assets under management.
- (3) If a member has the possibility of conducting, or entrusting its Related Juridical Person, etc. with, management operations of real property that is the underlying assets of Real Property Securities (including the case of leasing real property but excluding being entrusted with real property management and disposal trusts) in relation to business pertaining to discretionary investment contracts or investment advisory business, the member must establish a control environment including establishment of internal rules for preventing acts in conflict of interest.
- (4) If a member that manages business pertaining to discretionary investment contracts for investments in Real Property Securities is entrusted with the administration and management operations of a customer, the member shall pay attention that managing a passbook of a customer that is not a professional investment has the possibility of conflicting with the prohibition provided in Article 42-5 of the FIEA.

13. Establishment of an Appropriate System for Business Operations

Each member must establish an internal system for ensuring appropriate business operations, such as by making the status of compliance with these Standards in conducting business subject to management by the compliance officer referred to in 1. (2) of the Self-Regulation Standards on Systems for Business Execution (Resolution of the Board of Directors on June 16, 2000.)

14. Application to Fund Management Business

If a member is engaged in fund management business for investments in Real Property Securities or Specified Corporate Bonds for Real Property (meaning the fund management business defined in the preamble of the Business Operation Standards on Fund Management Business (Resolution of the Board of Directors on September 30, 2009)), these Standards instead of the said Standards apply replacing the term “business pertaining to discretionary investment contracts” with “fund management business.”

Note, however, that the provisions of 4. above apply if the other party of a purchase and sale is a customer’s assets under management and not a customer, and the provisions for exclusion of

professional investors from application in 11. above and the provisions of 12. (4) above do not apply.

Supplementary Provisions

These Standards come into effect as of January 1, 2009.

Supplementary Provisions (March 25, 2009)

This amendment comes into effect as of June 1, 2009.

Note:

Amended provision is as follows:

4 (3) is amended.

Supplementary Provisions (September 30, 2009)

This amendment comes into effect as of September 30, 2009; provided, however, that 12 comes into effect as of December 1, 2009.

Note:

Amended provisions are as follows:

4 (8) is amended.

7 is amended.

12 is newly established.

Supplementary Provisions (February 27, 2013)

This amendment comes into effect as of April 1, 2013; provided, however, that 7 comes into effect as of July 1, 2013.

A member may choose to be governed by prior provisions of old 4 (8) until June 30, 2013 with respect to the provisions on Related Foreign Juridical Person, etc. among the provisions on Related Juridical Person, etc.

Note:

Amended provisions are as follows:

4 (3), 4 (7), 5 (1), 5 (2), 5 (3), old 7 (b), and old 10 (3) are amended.

4 (8) is deleted.

7 and 8 are newly established, and old 7 through 12 are each moved down by two.

Supplementary Provisions (April 23, 2014)

This amendment comes into effect as of April 23, 2014.

Note:

Amended provisions are as follows:

7 (a) A. and 8 are amended.

Supplementary Provisions (June 14, 2019)

This amendment comes into effect as of June 14, 2019.

Note:

Amended provision is as follows:

5 (1) is amended.