

Self-Regulation Standards on Joint Investment and Common Investment

January 24, 2001

Resolution of the Board of Directors

[Partially amended on December 17, 2003]
[Partially amended on November 28 2007]

When a member who conducts business pertaining to discretionary investment contracts executes joint or common investment of the Customer Assets, the member shall comply with the self-regulation standards set forth below from the viewpoint of protection of fiduciary relationship with the customers, etc.

Details

1. Definitions

(1) Definition of Joint Investment

Joint investment refers to a method of investment under which several customers' assets are jointly invested and jointly administered (the same as the joint investment under Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc. (hereinafter referred to as "Supervision Guidelines")). The standard applicable to the cases of the joint investment is that the joint investment is permitted with respect to the Customer Assets concerning which the items listed in Appended Table 1 (mandatory confirmation items) are "all identical" on a practical basis.

(2) Definition of Common Investment

Common investment refers to a method of investment under which several Customer Assets are invested in the same way with regard to specific securities and the timing of sales and purchases and are administered on a customer-by-customer basis by the same asset administration organization (the same as the common investment under Supervision Guidelines). The standard applicable to the cases of the common investment is that the joint investment is permitted with respect to the Customer Assets concerning which the items listed in Appended Table 2 (mandatory confirmation items) are "all identical" on a practical basis.

2. Confirmation of Suitability

When a joint investment or a common investment is started, the following points shall be confirmed in order to confirm the suitability for the relevant customer and from the viewpoint of fulfilling the fiduciary duty toward the customer after the joint or common investment is started.

(1) Joint investment

Whether all of the items listed in Appended Table 1 are identical in relation to several Customer Assets to be invested jointly. The results of the confirmation shall be recorded in writing and retained for at least five years after the joint investment of the relevant customer is terminated.

(2) Common investment

Whether all of the items listed in Appended Table 2 are identical in relation to several Customer Assets to be invested commonly. The results of the confirmation shall be recorded in writing and retained for at least five years after the common investment of the relevant customer is terminated.

(3) Judgment of identicalness

Whether each of the items contained in Appended Table 1 or Appended Table 2 is “identical” for the cases of (1) and (2) above, respectively, without problems needs to be judged separately for each company from the viewpoint of ensuring suitability and compliance with the fiduciary duty after the investment is started in light of the policy regarding handling of joint or common investment of each company.

(Note) When “identicalness” is judged for the joint investment, the difference in the impact the execution of the joint investment will have depending upon the scale of the relevant Customer Assets needs to be sufficiently taken into consideration.

3. Disclosure to customers (consent)

From the viewpoint of protection of conflict of interest or security of fairness among the customers, when the joint or common investment is to be executed, the following disclosures (consent), etc. shall be offered (obtained) from the customers:

(1) Disclosure in writing prior to conclusion of contract

When conducting a joint investment or common investment, such matters as the restrictions (disadvantages, etc.) and the manner of handling (evaluation method, criteria for allocation, etc.) shall be fully explained (disclosed) to the customer using the document, etc. set forth in Article 37-3 of the Financial Instruments and Exchange Act (hereinafter referred to as “FIEA”) prior to conclusion of the contract.

When disclosing the restrictions, the provisions of Article 81 (Matters Related to Consideration Payable by Customers) of Cabinet Office Order on Financial Instruments Business, etc. shall be taken into consideration.

(2) Consent in writing upon conclusion of contract

When conducting a joint investment or common investment, the customer’s consent on such matters as the restrictions (disadvantages, etc.) and the manner of handling (evaluation method, criteria for allocation, etc.) shall be obtained using the document, etc. set forth in Article 37-4 of FIEA upon conclusion of the contract after having sufficient consultation with the customer. It should be noted that the disadvantages mentioned in (1) and (2) above refer, for example, to

the influence that the maintenance of the portfolio may incur to a certain degree resulting from the change that occurs to the balance of the assets jointly invested due to cancelation of contract by another customer involved in the joint investment.

4. Securing fairness among customers and prevention of conflict of interests

(1) Securing of fairness among customers

From the viewpoint of conducting the joint investment and the common investment while preventing conflict of interests among the customers and securing fiduciary relationship with the customers, the joint investment and the common investment need to be executed after making the criteria for allocation clear.

(2) Prohibition of joint investment and common investment between the member's own account and the Customer Assets

From the viewpoint of preventing conflict of interests between the customers and the member, "joint investment and common investment between the member's own account and the Customer Assets" is prohibited.

5. Observance of inherent characteristics of primary business pertaining to discretionary investment contracts

In order to observe the purport of "individual contract, individual investment decision, separate management," which are the inherent characteristics of the business pertaining to the discretionary investment contracts, the contracts shall be concluded after confirming the investment policies, etc. of the customers and investment be executed by fully taking the self-regulations into consideration.

Supplementary Provision (December 17, 2003)

This amendment comes into effect as of December 17, 2003.

(Note)

Amendment made is as follows:

- 1. (2) is amended (the definition of the common investment is amended to be the same with the definition contained in the Guideline for Administrative Processes (Financial Services Agency)).

Supplementary Provisions (November 28, 2007)

This amendment comes into effect as of November 28, 2007.

(Note)

Amendments made are as follows:

- (1) Preamble is amended. A part of it is moved to “(Reference),” which section is newly established;
- (2) 1. (1) and (2) are amended;
- (3) 3. (1) and (2) are amended; and
- (4) 5. is amended.

Appended Table 1. Mandatory Confirmation Items for Joint Investment

- Method of investment, style of investment
- Investment policy
- Investment target assets
- Benchmark (scope of risk or return, etc.)
- Restriction on incorporation and other restrictions concerning investment
- Treatment of voting rights and other rights pertaining to incorporated securities
- Tax system
- Evaluation of assets under management, accounting standards

Appended Table 2. Mandatory Confirmation Items for Common Investment

- Method of investment, style of investment
- Investment policy
- Investment target assets
- Benchmark (scope of risk or return, etc.)
- Restriction on incorporation and other restrictions concerning investment

(Reference)

An Ordinance of the Prime Minister's Office to abolish Article 29-2, paragraph (1), item (v) of Regulation for Enforcement of the Act on Regulations on Investment Advisory Business involving Securities was promulgated and came into effect on November 28, 2000. Further, Points of Attention Regarding Supervision of Securities Companies, Securities Investment Trust Management Companies and Securities Investment Advisory Companies (June 1998 Financial Supervisory Agency; hereinafter referred to as the “Guideline for Administrative Processes”) was amended. As a result of these amendments, the “joint investment” method and the “common investment” method were introduced to the authorized investment advisory service companies.