

**Comprehensive Guidelines for Supervision of
Financial Service Intermediaries
(Provisional Translation)**

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Financial Services Agency

Comprehensive Guidelines for Supervision of Financial Service Intermediaries

Provisional Translation

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I How Financial Service Intermediaries are Supervised and Regulated

I-1 Key Principles in Supervision of Financial Service Intermediaries

(1) Advances in information and communications technology (ICT) have made it possible to smoothly provide financial services online. Amid financial service environment changes of such a kind, the financial service intermediary business has been established as a new sector in which an intermediary is allowed to broker financial services with one registration in all of the banking, financial instruments business, insurance and money lending sectors and can readily liaise and work together with multiple financial institutions without belonging to any specific financial institution, with the aim of, among others, enabling users to make choices suitable to them from a variety of financial services.

Under the purpose of the system, financial service intermediaries are expected to offer in a one-stop manner various financial services provided by many financial institutions from multiple sectors and play important roles to respond to a wide variety of customer needs across sectors.

The supervision of financial service intermediaries is aimed at ensuring their healthy and appropriate management, improving user-friendliness for customers that receive financial services, and promoting their protection in order to contribute to the sound development of the national economy.

(2) Since its inception, the Financial Services Agency of Japan (“FSA”) has had a mission to ensure transparent and fair financial policy based on explicit rules. To this end, the FSA is constantly working to improve administrative efficiency and effectiveness, to make rules even more explicit, and to refine administrative procedures in various areas of financial policy, including supervision, inspection, and surveillance.

(3) Administrative transparency and fairness continue to constitute the backbone of the administrative operations now and in the future. At the same time, however, excessive prescription must be avoided. If enthusiasm to make rules clearer evolved into the preparation of extremely meticulous checklists, the regulator’s effort would end up with mechanical repetition and continuation of backward-looking and one-size-fits-all review based on a common comprehensive checklist. In this situation, no attempt would be made to explore root causes of problems and substantive verification of potential secondary problems or consequences. Moreover, such a supervisory approach might bring about further unwanted effects. For example, financial service intermediaries might be discouraged from finding out what is truly important in light of their overall business management and root causes of various problems, and seeking fundamental solutions to prevent recurrences. Or financial service intermediaries might become unwilling to take forward-looking measures at an early stage and to stay innovative in pursuit of best practices.

Depending on the probability of occurrence of important problems pertaining to the scale, attributes, compliance and other matters of financial service intermediaries, the FSA will continue on- and off-site monitoring through reality checks, dialogues and other means in cooperation with relevant offices, Local Finance Bureaus (including the Fukuoka Local Finance Branch Bureau and the Okinawa General Bureau; the same applies hereinafter), and the Securities and Exchange Surveillance Commission (SESC) and others (hereinafter referred to as “inspection entities”) and, when necessary, exercise supervisory actions, among

others, to prevent the occurrence of important problems and encourage, as occasion demands, financial service intermediaries to implement various programs for the improvement of their practical operations.

(Reference) “Approach to and Ways of Financial Inspection and Supervision (Basic Policy of Inspection and Supervision)” (June 29, 2018)

(4) With the key principles described in (1) to (3) in mind, the FSA requires that its staff members engaged in supervision of financial service intermediaries execute their duties in accordance with the following code of conduct and continue efforts to maintain confidence in supervisory policy.

(i) Entrustment from Japanese citizens and observance of professional ethics

FSA staff members are assigned to their duties because the corresponding responsibility is delegated from Japanese citizens to the FSA. Therefore, FSA staff members on duty must stay conscious of the goal of supervision of financial service intermediaries described in I-1(1) as the highest-priority mission. They must also maintain ethics pertaining to their duties and endeavor to aim at ensuring public confidence in financial policy.

(ii) Official discipline, integrity, and confidentiality

In the conduct of financial policy, FSA staff members should never compromise on discipline, integrity, and confidentiality and should maintain an even-minded and immovable attitude.

(iii) Big picture and medium to long term perspectives

The standpoints of citizens and companies using financial services should always be remembered. Rather than ending in detecting and clearing away short-term problems from a narrow point of view, FSA staff members’ time and effort must be spent to find out root causes of problems and to seek early solution from big-picture and medium-to long-term perspectives.

(iv) Integrity and fairness

Duties must be executed in an integrated and fair manner, through proper administrative procedures conforming to applicable laws, and with due consideration to circumstances of respective financial service intermediaries. Domestic financial service intermediaries and foreign corporations operating in Japan or financial service intermediaries that are subsidiaries of foreign corporations operating in Japan should be treated equally, except when different treatment is reasonably accountable based on applicable laws.

(v) Respect for financial service intermediaries’ initiatives

To achieve the goal of financial supervision described in I-1(1), while recognizing the fact that voluntary initiatives and ingenuity for innovation of financial service intermediaries are indispensable and that they are private enterprises, FSA staff members must pay due regard to their self-initiated efforts in their business management.

(vi) Self improvement

FSA staff members are expected to continuously brush up and improve their fundamental understanding of financial laws and regulations and recent conditions of financial service intermediaries, including those of foreign countries, and a broad range of social and economic topics that could affect financial services

serving as economic infrastructure. To effectively execute duties, which include dialog with financial service intermediaries, FSA staff members should gain deep insights on individual financial service intermediaries and need to conduct issue specific analyses requiring a high level of expertise in business performance, governance, risk management, or other themes. To acquire such expertise and skills, FSA staff members need to continue self-development efforts on a regular basis.

(vii) Appropriate and close communication with coworkers and external stakeholders

For effective supervision, FSA staff members need to have a broad perspective through a cross functional approach. For this reason, they should appropriately and closely communicate and cooperate with a wide variety of parties concerned, both inside and outside the FSA.

I-2 Roles of Guidelines for Supervision of Financial Service Intermediaries

I-2-1 Purpose of Establishment of Guidelines

For financial service intermediaries to play important roles of responding to a wide variety of customer needs across sectors in a one-stop manner, it is desirable that they win public trust by voluntarily exercising originality and ingenuity, competitively offering customer-based, high-quality services to pursue the best practices, and implementing good programs. In addition, it is necessary to appropriately motivate financial service intermediaries to strengthen governance aware of customer protection, proper risk management and so forth, together with the right design of institutional arrangements, from the viewpoint of promoting healthy innovations and customer protection as financial policy.

In this respect, financial service intermediaries are required to appropriately carry out the right amount of supervisory actions in the financial service sectors they are involved in because they are allowed to broker financial services in all of the banking, financial instrument transaction, insurance and money lending sectors with only one registration.

To implement daily clerical work for supervision based on such a purpose, we decided to comprehensively figure out the philosophy of supervision, points of observation and attention, specific supervisory means and so forth for financial service intermediaries across sectors by taking the existing guidelines for sectoral supervision and sorting out agenda considered necessary for the supervision of financial service intermediaries.

I-2-2 Roles of Guidelines

- (1) These Supervisory Guidelines systematically show the key principles in financial supervision, the points to note during administrative processes, and supervisory evaluation points, serving as a guide for staff members assigned to the duties of supervising financial service intermediaries.
- (2) In addition to these Supervisory Guidelines, the FSA releases various documents showing its supervisory policies, which include theme-specific supervisory approaches and principles, annual policies, and recommendations or requests to industry associations. During supervisory processes, the differences in the purposes and objectives of respective policy documents must be taken into full consideration, and thorough explanations should be provided to the financial service intermediaries.
- (3) The Local Finance Bureaus carry out clerical work for the inspection and supervision of financial service intermediaries based on the Comprehensive Guidelines. The same approach is applicable to offices in charge at the FSA.

In so doing, the guidelines are aimed at ensuring the sound and appropriate management of work by financial service intermediaries while respecting their voluntary efforts. They are also designed to cope with various cases adequately based on the reality of financial service intermediaries (such as individuals providing financial intermediary services, small-scale corporate bodies where the formation of in-house supervisory functions as an independent section is difficult, and the absence of board of directors and outside directors). It should be noted that all supervisory evaluation items mentioned in the guidelines are

not uniformly applied to each financial service intermediary.

Even if supervision is not made literally as defined by each evaluation item in implementing the guidelines, it is not treated as inappropriate as long as there are no problems from the standpoint of public interest and user protection. Taking this point into account and adequately based on, among others, the condition of each financial service intermediary, it is necessary to avoid mechanical and one-size-fits-all treatment. At the same time, it should be noted that there are cases in which functions related to evaluation items, even if prepared formally, are not necessarily adequate from the viewpoint of public interest, user production and so forth.

I-3 Structure of Guidelines

The guidelines are comprehensive and cross-sectoral and so are useable for the supervision of various financial service intermediaries. They are also designed to minimize overlapped descriptions.

“I. Basic Approach” and “II. Points of Attention in Clerical Work Pertaining to Inspection and Supervision of Financial Service Intermediaries,” therefore, are basically written with attention paid to points of attention and other matters common among financial service intermediaries.

“III. Supervisory Evaluation Points and Various Administrative Procedures (General)” and “IV. Security Deposits and Financial Service Intermediary Liability Insurance Contract” describe supervisory points of attention common to financial service intermediaries and procedures for security deposits and financial service intermediary liability contracts. “V” to “VIII” describe additional points of attention peculiar to each of the business operation types (deposit, etc. intermediary business operations, insurance intermediary business operations, securities, etc. intermediary business operations and loan intermediary business operations).

Therefore, supervisors of these financial service intermediaries are first required to read “III. Supervisory Evaluation Points and Various Administrative Procedures (General)” and “VI. Security Deposits and Financial Service Intermediary Liability Insurance Contract” and points of attention peculiar to each of the business operation types according to specific types for supervision.

II Points to Note in Administrative Services for Supervising Financial Service Intermediaries

II-1 Key Principles in Supervisory Activities

As described above (I-1(1)), FSA divisions and Local Finance Bureaus that supervise financial service intermediaries (hereinafter referred to as the “supervisory departments”) are required to continuously implement measures for financial service intermediaries according to their sizes and characteristics.

The first thing to do in such supervisory processes is to learn about respective financial service intermediaries’ policies for developing business models, securing sound and appropriate operation of financial service intermediary business, protecting customers, building compliance management and risk management systems, and addressing various other issues. What is essential next is to accurately understand how those policies are implemented, what governance systems are operated for such implementation, what potential risks or problems lurk, and how financial service intermediaries recognize and respond to their respective risks and problems.

In order to turn financial service intermediaries’ efforts towards addressing their critical issues from a holistic viewpoint into the sound development of Japan’s economy and customer protection, they should promote self-initiated improvements to pursue best practices and renovate their management systems, even without being instructed by the regulator. What the supervisory departments should do in this context is to encourage individual financial service intermediaries to pursue best practices by means of continuous monitoring; i.e., through dialog with them and checking their conditions.

If, in the course of such monitoring activities, the supervisory departments find any issue that is considered serious in terms of the soundness and appropriateness of the financial service intermediary business or customer protection, or determine that a financial service intermediary is unable to improve its business by its self-initiated efforts only, the supervisory departments will consider whether to issue a business improvement order or to impose other administrative action pursuant to Article -37 or other provisions of the Act on the Provision of Financial Services.

Some other points that need to be adequately considered in the course of supervising financial service intermediaries are summarized as follows.

(1) Close communication with financial service intermediaries

During the supervisory processes, it is important to adequately gather and analyze information about financial service intermediaries’ business operations and to make timely and proper responses. For this purpose, the supervisory departments not just need to obtain reports from financial service intermediaries from time to time, but also should endeavor to closely communicate with them and gather information on a day-to-day basis as necessary, with a sense of moderate and constructive tension between the regulator and regulated firms. More specifically, day-to-day communication with financial service intermediaries should be secured through periodic and occasional interviews, dialog, and discussions with their management, outside directors, internal auditors and various other officers or employees, together with the effort to understand both financial information and business information of those financial service

intermediaries.

(2) Respect for financial service intermediaries' initiatives

Since each financial service intermediary, as a private company, makes management decisions at its own risk and responsibility, the role of the supervisory departments as a regulator is to review such decisions based on relevant laws and regulations and to encourage them to resolve problems by their own efforts and resources. With this role firmly in mind, the supervisory departments must pay due regard to financial service intermediaries' initiatives in their business operations throughout supervisory processes.

(3) Efficient and effective supervisory activities

To make maximum use of limited resources of the supervisory departments and financial service intermediaries, supervisory activities need to be customized based on each financial service intermediary's size and characteristics, and implemented efficiently and effectively. When the supervisory departments ask a financial service intermediary to submit reports or other documents, the scope of such documents must be limited to the extent truly necessary for the relevant supervisory processes. More importantly, supervisory departments must continue efforts to enhance efficiency and effectiveness of supervisory activities; the necessity of the supervisory processes currently adopted and their methodologies should be constantly reviewed and supervisory processes should be redesigned whenever necessary.

The content of the reports previously obtained from financial service intermediaries and the procedures for requesting submission of reports or documents are reviewed every year to streamline such procedures and reduce financial service intermediaries' paperwork burdens. On such occasions, the supervisory departments should seek financial service intermediaries' opinions about submission requirements.

In supervising financial service intermediaries, the supervisory departments are required to closely cooperate with the certified Financial Service Intermediary Business Association, which is a self-regulatory organization as provided in the Act on the Provision of Financial Services, and undertakes self-regulatory functions leading financial service intermediaries to regulate themselves to secure customers' confidence. (Note) When the supervisory departments ask financial service intermediaries to submit reports or other documents on their small scale offices, their products and services and other peculiar circumstances must be taken into full consideration and due regard must be given so as not to disturb their efficient operation.

(4) Supervision based on diversity

Financial service intermediaries include various types of firms, such as those that conduct deposit and other intermediary business operations, those that conduct insurance intermediary business operations, those that conduct securities and other intermediary business operations, and those that conduct loan intermediary business operations, and they vary in size, characteristics and arrangements for compliance with the Act on the Provision of Financial Services and other laws and regulations. When

conducting supervisory activities as described in the Comprehensive Guidelines for Supervision of Financial Service Intermediaries, therefore, the supervisory departments should pay special attention to the requirement for them to select methods meeting the sizes and characteristics of individual financial service intermediaries in consideration of their diversity.

(5) Cooperation with inspection departments

The supervisory departments should pay attention to their cooperation with inspection departments to share information collected through monitoring and their awareness on a timely basis.

II-1-1 How to Supervise Financial Service Intermediaries

The regulator's supervision over financial service intermediaries is basically intended to encourage their necessary improvements. Such supervisory activities are implemented by combining various approaches and methods, including monitoring through risk profiling or dialog, imposition of supervisory measures, giving feedback, and dissemination of information. Such approaches and methods should be appropriately chosen based on individual financial service intermediaries' circumstances and the characteristics and severity of their problems.

In addition, day-to-day monitoring is essential for adequately understanding changes in the global economy and in market environments that could affect financial service intermediaries. At the same time, the regulator is required to conduct monitoring with sufficient consideration of the sizes and characteristics of individual financial service intermediaries, and based on the results thereof, the regulator must understand individual financial service intermediaries' circumstances through dialog with them and encourage their efforts to pursue best risk management practices, to develop management and governance systems capable of flexibly responding to changes, and to resolve various challenges.

II-1-2 General Supervisory Processes

(1) Off-site Monitoring

To secure the protection of customers' interests and financial service intermediaries' sound and appropriate business operations, the supervisory departments should implement off-site monitoring through the following interviews to ascertain the realities of financial service intermediaries' business operations.

(i) Interviews on financial conditions

The supervisory department should conduct in-depth interviews on the status of financial service intermediation after seeking detailed reports in addition to business reports as necessary.

(ii) Interviews on compliance with laws and regulations

The supervisory departments should conduct in-depth interviews with financial service intermediaries in consideration of improvement reports and other reports on inspection findings and the status of complaints about financial service intermediaries. As necessary, the supervisory departments should interview financial service intermediaries on corporate governance, internal control and internal audit systems.

(iii) Interviews with top leaders

As necessary, senior supervisory department officials should interview management leaders on corporate governance, internal control and internal audit systems, etc.

(iv) Occasional interviews

The supervisory departments should conduct occasional interviews when the need for supervision is identified in the event of changes in business conditions for financial service intermediaries and in their customers' attitudes and other developments that could affect financial service intermediaries' sound and appropriate business operations.

(v) Points of attention regarding off-site monitoring

The supervisory departments should conduct off-site monitoring to find problems regarding financial service intermediaries' business conditions and compliance with laws and regulations at an early stage and make arrangements for the encouragement of their improvement of such problems and other necessary administrative measures to be considered. The supervisory departments should also pay attention to the need for exploring the roots of such problems, including their backgrounds, environments and risks.

The supervisory departments should conduct off-site monitoring efficiently and effectively in consideration of financial service intermediaries' sizes and characteristics and how to promote their sound innovation.

(2) On-site inspection based on Article 36 of the Act on the Provision of Financial Services

In cases where on-site inspection is required, including those where detailed verification is necessary for customer protection, the supervisory departments should conduct statutory on-site inspection. Then, they should hold talks with management leaders while considering what problems are important for business management and what their root causes are. Such talks should not end up finding easy conclusions but pursue the fundamental resolution of the problems critical for both financial service intermediaries' management and financial administration.

See the Basic Procedures for On-Site Inspections, as shown in Attachment 1. If the FSA issues or provides a notice of inspection results to an inspected financial service intermediary, the FSA, within one week after the notice in principle, will ask the financial service intermediary to report its fact-checking of the problems pointed out in the notice, its own analyses of the causes of those problems, planned measures for improvement or remediation, and other comments within one month pursuant to Article 35 of the Act on the Provision of Financial Services.

(3) Dialog

The regulator's dialog with a financial service intermediary is intended to clarify whether any problem that could affect its financial soundness or compliance has occurred or is likely to occur, to review its initiatives for enhancing business management, or to discuss other issues that are important under the present circumstances

or in light of the nature of ongoing problems and the size and operational characteristics of the financial service intermediary.

In the course of dialog, FSA staff must avoid imposing their beliefs or hypotheses and endeavor to make the financial service intermediary's executives or managers feel free to express their views. After hearing their story and understanding the financial service intermediary's mindset and policies, facts-based discussions will follow.

On the occasion of each such dialog session, the past communications between the FSA and individual financial service intermediaries should be fully considered, and consistent and continuous discussions should be pursued.

- (A) Even if the FSA determines, based on the facts ascertained, that the financial service intermediary is highly likely to face a serious problem that could affect its compliance, the financial service intermediary should verify its challenges, root causes thereof, and the adequacy of remediation measures first of all. Then, in-depth discussions between the FSA and the financial service intermediary to implement remediation measures will follow. If, however, a serious problem has already arisen or high urgency in any other form is observed, the FSA may go further and pinpoint the issues required to be rectified in the FSA's opinion and then check the financial service intermediary's policies for rectification.
- (B) If financial service intermediaries are determined to be unlikely to cause serious problems as described in (A), they are expected to exercise diverse initiatives to innovate themselves in ways fitting their circumstances and to continue efforts to refine business models and risk management practices. The FSA will try to deepen its understanding of those financial service intermediaries' business conditions and challenges and their policies and strategies through day-to-day monitoring and profiling activities. Then, the FSA will conduct in-depth dialog with the financial service intermediaries to discuss their business models, risk management practices, human resources development, and other issues, without a presumption on the right answers, for the purpose of promoting their improved awareness and understanding (and share other financial service intermediaries' model cases for best practices where appropriate).

(4) How to respond to unregistered business operators

See II-1-3 (1) for how to respond when a person who conducts securities, etc. or loan intermediary business operations without relevant registration is found through complaints from customers, referral from investigative authorities, information from financial service intermediaries or the certified financial service intermediary business association, or newspaper ads.

II-1-3 Cooperation between Supervisory Departments

(1) Cooperation between the FSA and Local Finance Bureaus

The FSA and Local Finance Bureaus are required to appropriately exchange information needed for

supervising financial service intermediaries and share the presence of risks and awareness. Therefore, they should enhance their cooperation through their timely, appropriate provision of information and their exchange of opinions regarding information other than consultations on internal delegation described in II-1-5. Local Financial Bureaus, when having found unpublished risks or problems regarding financial service intermediaries supervised by other Local Financial Bureaus, should provide such findings to relevant Local Financial Bureaus and the FSA to enhance cooperation.

When a person who conducts securities, etc. or loan intermediary business operations without relevant registration is found through complaints from customers, referral from investigative authorities, information from financial service intermediaries or the certified Financial Service Intermediary Business Association, or newspaper ads, Local Financial Bureaus should quickly provide the finding to other Local Financial Bureaus supervising financial instruments business operators, registered financial institutions or money lenders and to the FSA to enhance cooperation.

(2) Liaison and coordination with Directors-General of Local Finance Bureaus

- (i) The FSA Commissioner or the Directors-General of Local Finance Bureaus (including the Director-General of the Fukuoka Local Finance Branch Bureau and the Director-General of the Okinawa General Bureau), when receiving a report on the establishment of a sales branch, the change of the location, the change of the name or the closure of business from a financial service intermediary in a district under jurisdiction of the Director-General of any other Local Finance Bureau, should send the report to the Director-General of the Local Finance Bureau who has jurisdiction over the location of the sales office.
- (ii) The FSA Commissioner or the Director-General of a Local Finance Bureau, when imposing an action pursuant to Article 37 or 38(1) of the Act on the Provision of Financial Services against a sales office of a financial service intermediary under his or her supervision, should quickly communicate the details of the action to the Director-General of the Local Finance Bureau who has jurisdiction over the location of the sales office.

II-1-4 Cooperation with Self-Regulatory Organization

It should be noted that supervisors of financial service intermediaries are required to place emphasis on rules of the self-regulatory organization as well as statutory regulations. With the self-regulatory organization, the supervisors should try to appropriately exchange information viewed as required for supervising financial service intermediaries and share risks and awareness through the proactive exchange of opinions for the purpose of securing the sound and appropriate management of financial service intermediary business operations or protecting customers.

II-1-5 Internal Delegation

(1) Consultations with the FSA Commissioner

The Directors-General of Local Finance Bureaus should consult in advance with the FSA Commissioner on the following actions over which the authority is delegated to the Directors-General of Local Finance Bureaus with regard to the supervision of financial service intermediaries.

For such consultations, the details of deliberations at their bureaus and opinions on the actions should be provided.

- (i) Rejection of registration pursuant to Article 15 of the Act on the Provision of Financial Services
- (ii) Business improvement or suspension order and registration cancellation as administrative actions pursuant to Article 37 and Article 38(1) of the Act on the Provision of Financial Services
- (iii) Abolition of electronic payment services pursuant to Article 38(2) of the Act on the Provision of Financial Services
- (iv) Dismissal of directors pursuant to Article 38(3) of the Act on the Provision of Financial Services

(2) Reports on delegated actions, etc.

The Directors-General Local Financial Bureaus, if taking the following actions over which the authority is delegated to the Directors-General of Local Finance Bureaus with regard to the supervision of financial service intermediaries, should report the actions to the Director-General of the FSA Supervision Bureau.

- (i) The Directors-General of Local Finance Bureaus, if conducting registration pursuant to Article 14(1) or 16(1) of the Act on the Provision of Financial Services with regard to financial service intermediaries under FSA supervision, should quickly send registration applications (authentic texts for written applications) and attached documents to the Financial Service Intermediary Business Office, Planning and Management Division, Supervision Bureau.
- (ii) The Directors-General of Local Finance Bureaus, if receiving the following reports from financial service intermediaries under their jurisdiction, should report their contents to the Financial Service Intermediary Business Office, Planning and Management Division, Supervision Bureau, by the 20th day of the next month.
 - (A) Reports as prescribed by each item of Article 16(3) of the Act on the Provision of Financial Services and Article 19 of the Cabinet Office Order on Financial Service Intermediaries (hereinafter referred to as “Cabinet Office Order on Intermediaries”).
 - (B) Detailed statements of security deposits, etc. as prescribed by Article 26(3) of the Cabinet Office Order on Intermediaries.
 - (C) Business reports as prescribed by Article 34(1) of the Act on the Provision of Financial Services.
- (iii) The Directors-General of Local Finance Bureaus, if taking the following actions with regard to the supervision of financial service intermediaries, should report their details to the Director-General of the Supervision Bureau without delay.

- (A) Requesting the submission of reports and materials pursuant to Articles 35 (1) and (2) of the Act on the Provision of Financial Services.
- (B) Receiving on-site inspection results pursuant to Articles 36 (1) and (2) of the Act on the Provision of Financial Services.
- (C) Issuing business improvement orders, etc. pursuant to Article 37 of the Act on the Provision of Financial Services.
- (D) Taking supervisory actions as prescribed by Article 38 (1) to (3) of the Act on the Provision of Financial Services.
- (iv) The Directors-General of Local Finance Bureaus should compile a semiannual report on the confirmation of problems (the proviso to Article 39 (3) of the Financial Instruments and Exchange Act applied by Articles 31 and 77 of the Act on the Provision of Financial Services (hereinafter referred to as the applied Financial Instruments and Exchange Act)) and submit the report to the Financial Service Intermediary Business Office, Planning and Management Division, Supervision Bureau, by the 15th day of the month after the end of the half-year period.
- (v) The Directors-General of Local Finance Bureaus should check registration and license tax payments (as prescribed in Article 2 of the Registration and License Tax Act) by financial service intermediaries under their supervision for the previous business year (from April 1 of the previous year to March 31 of the current year) and submit relevant reports to the Financial Service Intermediary Business Office, Planning and Management Division, Supervision Bureau, by the end of April every year.
- (3) Internal Delegation of Part of the Authority of the Directors-General of Local Finance Bureaus to the Directors of the Competent Finance Offices

When the principal offices of financial service intermediaries are located within districts under jurisdiction of a Local Finance Office, the Otaru sub-office or the Kitami sub-office, the authority delegated to the Directors-General of Local Finance Bureaus (including the Director-General of the Fukuoka Local Finance Branch Bureau and the Director-General of the Okinawa General Bureau) as prescribed by Article 46 of the Enforcement Order for the Act on the Provision of Financial Services can be delegated to the Director of a Local Finance Office, the Otaru sub-office or the Kitami sub-office according to the judgment of the Directors-General.

Written applications and notifications regarding these matters should be submitted to the Directors-General of the relevant Local Finance Bureaus.

II-1-6 Points to Note in Preparation of Documents Submitted by Financial Service Intermediaries

When entering the names of directors or officers in forms under the Comprehensive Guidelines for Supervision of Financial Service Intermediaries, the current name of a person who has changed his/her surname may be accompanied by his/her former surname (meaning the former surname as prescribed by Article 30-13 of the Order

for the Enforcement of the Residential Basic Book Act (Order No. 292 of 1967); the same applies hereinafter) and forename in parentheses.

As for directors or officers who have entered their former surnames and forenames in registration applications in Article 13 (1) of the Act on the Provision of Financial Services or in written reports as prescribed by Article 16(3)(i) of the Act on the Provision of Financial Services or Article 19 (1) of the Order for Financial Service Intermediaries, etc., the former surnames and forenames alone may be written until they report changes in their former surnames and forenames.

II-1-7 Points to Note Regarding Written and Face-to-Face Procedures

According to the provisions of Article 6(1) and Article 7(1) of the Act on the Advancement of Government Administration Processes That Use Information and Communications Technology (hereinafter referred to as the “Digital Procedure Act”), applications, notifications, etc. by financial service intermediaries, etc. to the authorities and notices of dispositions, etc. issued by the authorities to financial service intermediaries, etc. may be made by means of an electronic data processing system, notwithstanding the provisions of the relevant laws and regulations, even if other methods, such as in writing, are stipulated in those laws and regulations.

In light of the purpose of the Digital Procedure Act, the provisions of these Supervisory Guidelines relating to procedures covered by the same Act may be implemented by means of an electronic data processing system, regardless of the written or face-to-face descriptions in the provisions.

In addition, in the midst of dramatic progress in digitalization in all economic and social activities, the government as a whole is reviewing Japan's systems and practices based on documents, seals, and face-to-face procedures, and is making efforts to realize a remote society in which procedures can be carried out without actually visiting.

In order to steadily advance these efforts, the FSA has been promoting the computerization of administrative procedures by renewing the FSA Electronic Application and Notification System, which enables all applications and notifications received from financial service intermediaries to be submitted online, and by revising Cabinet Office Orders and Supervisory Guidelines, etc., which abolish the use of seals.

Furthermore, with regard to procedures among private business operators, the FSA has held a “Study Group for the Review of Documents, Seals, and Face-to-Face Procedures in the Financial Industry,” and has been working to eliminate the need for electronic documents and seals and review face-to-face regulations by encouraging the industry as a whole to review its practices.

In light of such efforts by the public and private sectors, among the statements concerning documents and face-to-face meetings in these Supervisory Guidelines, matters other than those concerning procedures subject to the Digital Procedure Act may also be conducted by means of an electronic data processing system or by means of other information and communications technology, except for the cases where original copies are to be requested as set forth in II-1-8.

In light of the above, supervisors shall be encouraged to take procedures pursuant to the provisions of these Supervisory Guidelines in a manner that does not require written or face-to-face consultation as much as possible, taking into consideration the intention of the other party to the procedures.

II-1-8 Points to Note When Submitting Application Forms

Based on II-1-7, applications and notifications by financial service intermediaries, etc. to the authorities shall be required to be submitted by the methods listed in (1) and (2) below in principle.

However, with regard to attached documents issued by public institutions (such as a copy of the residence certificate, an identification card, a certified copy of the family register, documents certifying payment of taxes and fees, etc.), original copies shall be requested.

(1) FSA Electronic Application and Notification System

In principle, financial service intermediaries are required to submit applications and notifications to the authorities by the deadline specified by laws and regulations using the FSA Electronic Application and Notification System, except for procedures requiring submission using the FSA Business Support Integration System (hereinafter referred to as the “Integration System”) set forth in (2).

However, for the time being, the FSA will allow the submission of applications via e-Gov in parallel with the submission via the FSA’s electronic application and notification system.

(2) FSA Business Support Integration System

In principle, business reports shall be required to be submitted using the Integration System.

II-2 Responding to Inquiries or Complaints

(1) Basic response

While inquiries or complaints about financial service intermediaries or financial service intermediary business may be primarily received by the FSA’s Counseling Office for Financial Services Users or competent department at each Local Finance Bureau, the FSA office or the competent Local Finance Bureau department should explain to the consultors that the regulator is in no position to mediate or otherwise become involved in any specific transactions. Where appropriate, the FSA office or the competent Local Finance Bureau department may introduce an ADR body (meaning a designated dispute resolution organization as prescribed by Article 11(9) of the Act on the Provision of Financial Services; the same applies hereinafter) and the certified Financial Service Intermediary Business Association as bodies that respond to inquiries or complaints based on the Act on the Provision of Financial Services.

If the consultors have given consent to the provision of information about the inquiries or complaints to financial service intermediaries, the regulator may, in principle, provide relevant information to relevant financial service intermediaries.

(2) Accumulation of information

Each Local Finance Bureau should record inquiries or complaints about financial service intermediaries if they are viewed as useful for supervising financial service intermediaries. Information viewed as particularly useful should be reported quickly to the Financial Service Intermediary Business Office, Risk Analysis Division, Strategy Development and Management Bureau,

(3) Cooperation with the Counseling Office for Financial Services Users

To properly incorporate feedback from inquiries or complaints received at the Counseling Office for Financial Services Users in the FSA's supervisory activities, the FSA's supervisory divisions will carry out the following steps.

- (i) Analyze details of the inquiries and complaints circulated from the Counseling Office
- (ii) Share information with the Counseling Office

II-3 Responding to External Inquiries about Interpretation and Application of Laws and Regulations

II-3-1 Inquiries about Laws and Regulations

(1) Scope of the FSA's Inquiry Services

The FSA responds to inquiries about interpretation and application of the Act on the Provision of Financial Services and laws and regulations related thereto that fall within the jurisdiction of the FSA. If receiving an inquiry about any law outside its jurisdiction, the FSA will strictly refrain from making any comments on the inquiry.

(2) Methods for Responding to Inquiries

- (i) When it is possible to answer to an inquiry based on these Supervisory Guidelines, opinions or reports issued by the FSA's relevant councils or panels, or any other existing documents, the FSA will give an answer appropriately.
- (ii) When a Local Finance Bureau receives an inquiry to which the Bureau finds it difficult to reply on its own, the Bureau should compile an inquiry e-mail and consult with a relevant FSA division via e-mail, etc.
- (iii) If a business operator directly governed by any law falling within the jurisdiction of the FSA or an industry association consisting of such business operators (*) makes an inquiry in connection with the laws and regulations falling within the jurisdiction of the FSA, the director of the FSA's relevant division will provide an answer to the inquiry in writing or by electronic or magnetic means and publicly disclose its content, insofar as such inquiry is a common question satisfying all of the criteria listed in a. and b. below and it is determined appropriate to give an answer in writing or by electronic or magnetic means and publicly disclose its content with a view to enhancing predictability in application of the law.

Note: An industry association in this context means an organization formed by a substantial number of business operators of the same type of business directly governed by a certain law falling within the FSA's jurisdiction with the intention of promoting their common interests, or a group of such organizations (limited to the highest-tier organization if the industry has multi-tier associations or federations).

(A) Scope of inquiries covered by the FSA's inquiry services

The FSA's services to respond to inquiries under the procedures explained here are provided when the inquiry satisfies all of the following criteria.

- a. The inquirer does not ask about a specific business operator's specific transaction and the applicability of any law to such transaction, but wants to know the interpretation of any laws or regulations generally applicable to common cases. (In other words, the inquiry cannot be processed through the Prior Confirmation Procedures on the Application of Laws and Regulations by Administrative Agencies).
- b. The inquirer does not ask the FSA to ascertain or check facts.

- c. The inquiry pertains to transactions commonly conducted by many business operators directly governed by the law falling within the FSA's jurisdiction (or commonly conducted by the business operators belonging to an industry association, if the inquirer is such industry association), and similar inquiries are expected to be made by many other business operators.
- d. A clear answer to the inquiry cannot be found in relevant administrative guidelines released in the past.

(B) Inquiry forms (including electronic records of matters that must be described on inquiry forms; the same applies to the following through II-3-3)

If an inquirer desires to make an inquiry under the procedures explained here, an inquiry must be submitted to the FSA in a prescribed form stating the following matters. After submitting an inquiry in a prescribed form, the inquirer may be asked to rewrite descriptions in the inquiry form or to provide additional information if the FSA finds it necessary to confirm the content of the inquiry or to judge whether or not the inquiry meets the criteria described in a. above.

- a. The clauses of the laws and regulations relevant to the inquiry, and the points at issue explained in concrete terms
- b. The inquirer's opinions and their reasoning
- c. The inquirer's consent to disclosure of the inquiry and the corresponding answer to the public

(C) Point of contact

Written inquiries will be received by FSA divisions having the authority and responsibility for affairs concerning the laws and regulations pertaining to inquiries or by Local Finance Bureau divisions having jurisdiction over inquirers. Local Finance Bureau divisions, when receiving written inquiries, should quickly send the written inquiries to relevant FSA divisions via e-mail, etc.

(D) Answer

- a. The director of the FSA's relevant division will endeavor to give an answer to the inquirer, in principle, within two months after the arrival of the inquiry at the specified point of contact. If it is difficult to answer within two months, the inquirer will be informed of the reason for such delay and an estimated answer date.
- b. Each answer to any inquiry (including electronic records of matters that must be described on said answer; the same applies to the following through II-3-3) must contain a disclaimer of the following substance:

"This document offers a general view of the Financial Services Agency, as the competent administrative agency having jurisdiction over the laws and regulations related to the referenced inquiry, as of the date hereof. The views expressed in this document are premised exclusively on the information contained in the inquiry. This document is not intended to make any judgment regarding the application of said laws and regulations to any specific case and is not binding on any judgment of competent investigative or judicial authorities."

c. If the FSA's relevant division decides not to answer the inquiry in accordance with the foregoing procedures, the division will inform the inquirer and explain the reason for such decision.

(E) Public disclosure

After giving an answer to an inquirer in accordance with the procedures described in (D) above, the FSA will promptly disclose the inquiry and the answer on the FSA website to make them available for public access.

(iv) Inquiries which are frequently received but deviate from the criteria described in (iii) above may, where appropriate, be shared among all relevant divisions in the FSA by means of circulation in a prescribed form. Then, the planning manager of the division primarily responsible of the FSA or a Local Finance Bureau will archive such circulated information.

(v) If an inquirer desires to obtain an answer in writing or by electronic or magnetic means from the FSA in a situation where the Prior Confirmation Procedures on the Application of Laws and Regulations by Administrative Agencies can be used under the rules specified in II-3-2(2), the inquirer will be asked to use the relevant procedures.

II-3-2 Prior Confirmation Procedures on Application of Laws and Regulations by Administrative Agencies (No Action Letter System)

Under the Prior Confirmation Procedures on the Application of Laws and Regulations by Administrative Agencies (the "No-Action Letter System"), private companies can contact the competent administrative agency and seek its confirmation in advance as to whether specific provisions of certain laws and regulations are applicable to a particular action for planned business activities. Administrative agencies will give answers to the inquiries made under this system and publicly disclose those answers. The FSA has established detailed rules concerning its No-Action Letter System. Below are the administrative procedures to operate the FSA's No-Action Letter System. In this regard, FSA staff are required to read the Details of the Prior Confirmation Procedures on the Application of Laws and Regulations by the Financial Services Agency before using the No-Action Letter System.

(1) Point of contact

Inquiries made through use of the No-Action Letter System are received by the Planning and Management Division of the FSA Supervision Bureau.

If the Planning and Management Division receives an inquiry in a prescribed form conforming to all of the requirements specified in (2)-(iii) below, the inquiry will be promptly acknowledged and passed on to the division having the authority and responsibility for affairs concerning the laws and regulations pertaining to the inquiry.

Inquiries from financial service intermediaries regulated under the jurisdiction of Local Finance Bureaus are received by relevant Local Finance Bureaus. When a Local Finance Bureau receives an inquiry, the inquiry

must be sent to the Planning and Management Division of the FSA Supervision Bureau via e-mail, etc. quickly in principle.

Note: When a Local Finance Bureau sends a written inquiry to the Planning and Management Division of the FSA Supervision Bureau, a document showing the Local Finance Bureau's review comments must be attached.

(2) Steps following the receipt of an inquiry

The division receiving the inquiry passed on as above will determine whether or not it should be processed under the No-Action Letter System, by checking the points listed in (i) through (iii) below, among others. If the inquiry is not eligible for the No-Action Letter System, the inquirer will be informed to that effect. If it is found necessary to correct any description in the inquiry or to obtain additional information, the division will ask the inquirer for necessary arrangement. However, the scope of information to be additionally submitted should be minimized, in order to avoid imposing excessive burdens on the part of the inquirer.

(i) Points for which confirmation can be sought

Whether the inquiry is made by a private enterprise having a concrete plan of a new business or transaction in the context of any laws and regulations and related government orders listed on the FSA website as those covered by the FSA's inquiry services (collectively, "Laws and Regulations"), as to the adequacy of such business or transaction from the perspectives listed below.

(A) Whether or not the business or transaction would constitute unlicensed or unauthorized operation if it were commenced without corresponding formalities

(B) Whether or not the business or transaction would constitute operation lacking required notification if it were commenced without corresponding formalities

(C) Whether or not the business or transaction will constitute grounds for imposing suspension of business, revocation of license, or any other adverse disposition

(D) Whether or not the business or transaction could directly lead to a situation where the firm will face some obligations or restrictions on rights in the context of financial policy

(ii) Eligibility for inquirers

Those who are allowed to make an inquiry under the No Action Letter System are limited to persons who intend to perform a particular action referred to in the inquiry in the context of their own business activities and desire to know about the applicability of the Laws and Regulations for such action, or attorneys at law or other agents acting for and on behalf of those persons. To make an inquiry, it must be submitted in a prescribed form conforming to the requirements specified in the next paragraph, and the inquirer is requested to give consent to public disclosure of the inquiry and the corresponding answer.

(iii) Requirements for filling out an inquiry form

Inquiries must conform to the following requirements.

(A) The facts specific to the action to be performed by the inquirer must be concretely described.

(B) The provisions in the Laws and Regulations for which the regulator's confirmation is sought must be

identified.

(C) The inquirer's consent to public disclosure of the content of the inquiry and the corresponding answer must be clearly stated.

(D) The inquirer's opinions as to the application of the provisions in the Laws and Regulations identified in (B) and their reasoning must be clearly described.

(iv) Answer

The director of the FSA's division receiving an inquiry passed on will give an answer to the inquirer, in principle, within 30 days after the arrival of the inquiry at the specified point of contact. In any of the cases listed below, however, the deadline respectively specified will apply. In all such cases, relevant directors should endeavor to answer within the shortest possible time, including periods for the inquirer's correction or additional documentation, if applicable.

(A) If the inquiry pertains to any advanced financial technique or technology and requires careful judgment: within 60 days, in principle

(B) When an effort to answer to a specific inquiry within the standard period is likely to be significantly detrimental to the division's overall operations because of a large number of inquiries exceeding the division's workload capacity: within a reasonable period exceeding 30 days

(C) If the inquiry pertains to the Laws and Regulations concurrently subject to the FSA and another ministry or agency: within 60 days, in principle

If the inquirer is asked to correct any description in the inquiry, the number of days taken for such correction will not be included for the purpose of recognizing the answer deadline. If an answer is not given within 30 days, the inquirer will be informed of the reason for such delay and an estimated answer date.

(v) Public disclosure of inquiries and answers

The content of an inquiry and its corresponding answer will be disclosed on the FSA website for public access, in principle, within 30 days after the answer date.

However, such public disclosure may be postponed for a reasonable period if the inquiry states why the inquirer requests for public disclosure after a certain period of time following the answer date and when the inquiry can be disclosed, on condition that such reason is determined justifiable. In this event, the actual postponement period will not necessarily be the same as the period desired by the inquirer. When the reason for the postponement ceases to exist, the FSA may start public disclosure upon notice to the inquirer. If an inquiry or its corresponding answer contains any portion constituting or likely to constitute non-disclosure information defined in each item of Article 5 of the Act on Access to Information Held by Administrative Organs, the FSA may publicly disclose the content of the inquiry and answer after eliminating such portions.

II-3-3 System to Eliminate Regulatory Gray Zone

Under Article 7(1) of the Industrial Competitiveness Enhancement Act, a person intending to start new

business activities may seek confirmation regarding the interpretation of provisions of relevant acts and subordinate orders (including public notices) which may regulate such new business activities and other related business activities (collectively, “Laws” in II-3-3) and the applicability of such provisions to those business activities. This system for requesting confirmation is called the “Gray Zone Elimination System.” Below are the administrative procedures for operating the Gray Zone Elimination System at the FSA. Before applying the Gray Zone Elimination System, FSA staff members are required to read the “Guide to the Use of the System to Remove Gray Zone Areas, the Regulatory Sandbox System, and the New Business Special System (July 15, 2022; Ministry of Economy, Trade and Industry) (hereinafter in II-3-3, referred to as the “METI Guide,” including the guide amended by METI).

(1) Point of contact

Inquiries made under the Gray Zone Elimination System are received by the Strategy Development Division, the Strategy Development and Management Bureau of the FSA.

When the Strategy Development Division receives an inquiry in a prescribed form conforming to all of the requirements specified in (2)(iii) below, the inquiry will be promptly acknowledged. If the inquiry is to be submitted to two or more competent ministers, the Strategy Development Division will seek confirmation from them.

Inquiries from financial service intermediaries under supervision of Local Finance Bureaus are received by respective Local Finance Bureaus. When a Local Finance Bureau receives an inquiry, the inquiry must be promptly sent to the FSA’s Strategy Development Division.

Note: When a Local Finance Bureau dispatches the original of an inquiry to the Strategy Development Division, a document showing the Local Finance Bureau’s review comments must be attached, in principle. Such comments are required solely for the issues involving the Laws falling within the jurisdiction of the FSA for which confirmation is sought.

(2) Steps following the receipt of an inquiry

After receiving and acknowledging an inquiry, the FSA’s Strategy Development Division will promptly pass it on to the division having the authority and responsibility for affairs concerning the Laws for which confirmation is sought. Then, both divisions will discuss and determine whether or not it should be processed under the Gray Zone Elimination System, by checking the points listed in (i) to (iii) below, among others. If the inquiry is not eligible for the Gray Zone Elimination System, the person who has submitted the inquiry (a “submitter” in II-3-3) will be informed to that effect. If it is necessary to correct the inquiry or obtain additional information in order to apply the Gray Zone Elimination System to the inquiry, the Strategy Development Division will ask the submitter for necessary arrangement.

In this event, the scope of documents to be additionally submitted should be minimized, in order to avoid imposing excessive burdens on the part of the submitter.

(i) Eligibility for requesting confirmation

Those who submit a request for confirmation under the Gray Zone Elimination System must meet both of the following criteria.

(A) The submitter is a person intending to start new business activities.

Note: “New business activities” means the development or production of new products, the development or provision of new services, the introduction of new approaches for producing or selling products, the introduction of new approaches for providing services, or other new business activities which are expected to enhance productivity (as detailed below) or to create new demand and which are unlikely to disrupt public order or morality (Article 2(4) of the Industrial Competitiveness Enhancement Act; Article 2 of the Order on the Development of Special Measures for Regulations on Testing of New Technology and New Business Activities and the Promotion of Regulatory Reform under the Industrial Competitiveness Enhancement Act (hereinafter referred to as the “Order under the Industrial Competitiveness Enhancement Act”) Regulation for Enforcement of the Industrial Competitiveness Enhancement Act). The term “productivity” encompasses resource productivity, meaning the degree of contribution to economic activities of a person intending to launch new business activities which is expected to be achieved through use of energy or mineral resources (excluding the case of using mineral resources as energy sources).

(B) The new business activities that the submitter intends to start falls within the scope of businesses subject to the FSA’s jurisdiction, or the submitter seeks confirmation regarding the interpretation of provisions of laws and regulations within the jurisdiction of the FSA which regulate the submitter’s new business activities and other related business activities and the applicability of such provisions to those business activities.

(ii) Points for which confirmation can be sought

A submitter intending to start new business activities may seek confirmation regarding the interpretation of provisions of laws and regulations within the jurisdiction of the FSA which regulate the new business activities and other related business activities and the applicability of such provisions to those business activities. Such confirmation may be requested from the perspectives listed below.

(A) Whether or not the business or transaction would constitute unlicensed or unauthorized operation if it were commenced without corresponding formalities

(B) Whether or not the business or transaction would constitute operation lacking required notification if it were commenced without corresponding formalities

(C) Whether or not the business or transaction will constitute grounds for imposing suspension of business, revocation of license, or any other adverse disposition

(D) Whether or not the business or transaction could directly lead to a situation where the firm will face some obligations or restrictions on rights in the context of financial policy

(iii) Requirements for filling out an inquiry form

Inquiries must be submitted in Form 9 attached to the Order under the Industrial Competitiveness Enhancement Act in accordance with the METI Guide. Each inquiry must state the following matters.

(A) Goals of the new business activities and related business activities

(B) Descriptions of the new business activities and related business activities

(C) Time schedule for the new business activities and related business activities

(D) Clauses of the Laws for which interpretation and applicability need to be confirmed

(E) Particular issues that need to be confirmed

(3) Answer

(i) If the FSA's Strategy Development Division judges that an inquiry should be answered, the FSA's division receiving the inquiry from the Strategy Development Division will, in principle, issue an answer within one month after the arrival of the original of the submitter's inquiry at the specified point of contact. This answer will be issued or provided in Form 11 attached to the Order under the Industrial Competitiveness Enhancement Act.

However, when it is difficult to issue or provide an answer within such time frame, depending on the progress of examinations for the interpretation and applicability of the provisions in the Laws mentioned in the inquiry for which confirmation is sought and the division receiving the inquiry determines that such situation is unavoidable on reasonable grounds, the submitter will be informed of the situation and its reason and kept updated at intervals of not more than one month until the answer is issued or provided.

II-4 Points to Note in Providing Administrative Guidance or Implementing Equivalent Actions

II-4-1 Points to Note in Providing Administrative Guidance or Implementing Equivalent Actions

When providing administrative guidance or equivalent (meaning administrative guidance defined in Article 2(vi) of the Administrative Procedure Act or any other administrative action that cannot be clearly distinguished from administrative guidance, e.g., providing information, consultation, advice or the like) to financial service intermediaries, FSA staff must act properly in accordance with the Administrative Procedure Act and other relevant laws and regulations. In particular, the following points must be noted when intending to provide administrative guidance, etc.

(1) General principles (Article 32 of the Administrative Procedure Act)

- (i) Is the content of the administrative guidance, etc. fulfilled solely by the financial service intermediary's voluntary cooperation?

More specific points to note are as illustrated below.

- (A) Do FSA staff convince the financial service intermediary of the content of the administrative guidance, etc., its operation, and the staff's responses?

- (B) Aren't the administrative guidance, etc. forcibly continued even though the financial service intermediary clearly expresses its unwillingness to cooperate?

- (ii) Doesn't the financial service intermediary receive any disadvantageous treatment by reason of its refusal to follow the administrative guidance, etc.?

- (A) If the fact about a certain financial service intermediary's failure to follow administrative guidance, etc. was publicly disclosed without due legal grounds, or if such public disclosure was likely to inflict economic losses on the financial service intermediary or impose social sanction on the financial service intermediary in any other way, the regulator's action might eventually be regarded as disadvantageous treatment.

- (B) If there is a possibility that, whether or not exercising the authority to render administrative action remain uncertain at the time when the regulator intends to provide administrative guidance, etc. to a financial service intermediary, it may subsequently turn out that the financial service intermediary's situation deserves certain administrative action depending on circumstances after provision of the administrative guidance, etc., the FSA will not be precluded from giving administrative guidance, etc. by suggesting the possibility of exercising administrative action at a later time.

(2) Administrative guidance, etc. for applications filed by financial service intermediaries (Article 33 of the Administrative Procedure Act)

If a financial service intermediary filing a certain application has clearly expressed its unwillingness to follow the administrative guidance, etc., does the FSA staff's behavior (such as forcibly continuing the administrative guidance) preclude the applicant from exercising its rights?

- (i) Even when the applicant does not express a clear intention of defying the administrative guidance, etc., FSA staff should observe the backgrounds underlying the administrative guidance, etc. and changes in objective circumstances surrounding the financial service intermediary and try to find out whether the financial service intermediary shows a negative reaction.
- (ii) Even when the applicant appears to go along with the administrative guidance, etc., the applicant may not necessarily accept possible delay in the regulator's judgment or responses for the application in question.
- (iii) More specific points to note are as described below.
 - (A) Does FSA staff avoid behavior that forces the applicant to have no other choice but to follow the administrative guidance, etc. and consequently preclude the applicant's exercise of its rights?
 - (B) When the applicant does not express a clear intention of defying the administrative guidance, etc., do FSA staff take care not to intentionally suspend or withhold their process of examinations and responses for the application in question by reason of the ongoing administrative guidance, etc.?
 - (C) When the applicant expresses its unwillingness to follow the administrative guidance, etc., do FSA staff stop enforcing the administrative guidance, etc. and promptly take appropriate steps for the application in question?

(3) Administrative guidance, etc. in relation to the authority to grant permission, license, or other approval (Article 34 of the Administrative Procedure Act)

Even when the regulator is unable to exercise the authority to give permission, license, or other approval or to render disposition based on such permission, license, or other approval or has no intention of exercising such authority, do FSA staff avoid deliberately threatening the financial service intermediary with the regulator's power to exercise such authority and eventually coerce the financial service intermediary to follow the administrative guidance, etc.?

More specific points to note are as illustrated below.

- (i) Although the FSA has no authority to refuse to grant certain permission, license, or other approval, etc., do FSA staff avoid pretending to have such authority and coerce the financial service intermediary into certain action or inaction?
- (ii) Do FSA staff avoid inducing the financial service intermediary to have no other choice but to follow the administrative guidance, etc. in such a way to imply that failure to follow the administrative guidance, etc. will immediately lead to the exercise of certain authority or some disadvantageous treatment?

(4) Means of administrative guidance, etc. (Article 35 of the Administrative Procedure Act)

- (i) When providing administrative guidance, etc. to a financial service intermediary, is the financial service intermediary clearly informed of the purpose and content of the administrative guidance, etc. and the name of the FSA's official responsible?

More specific points to note are as illustrated below.

- (A) Is the required action or inaction defined clearly?
 - (B) Is the name of the official primarily responsible for enforcing the administrative guidance, etc. indicated clearly?
 - (C) When the administrative guidance, etc. is based on any specific Act, are relevant provisions in the Act identified?
 - (D) When the administrative guidance, etc. is not based on any specific Act, is the purpose of the administrative guidance, etc. clarified and explained to convince the financial service intermediary of the necessity of the administrative guidance, etc.?
- (ii) When the financial service intermediary asks for issuance of a document stating the purpose and content of the administrative guidance, etc. and the name of the official responsible, is such document issued except where it is specifically detrimental to financial policy? (The foregoing does not apply in any of the cases set forth in each item of Article 35(4) of the Administrative Procedure Act.)
- (A) Upon request for issuance of a document in writing, it should be issued as promptly as possible.
 - (B) According to the Administrative Procedure Act, “extraordinary administrative inconvenience” that justifies the regulator’s refusal to issue a written document means a situation where the document is expected to be exploited for any purpose or to be interpreted in any way that is irrelevant to the issuer’s intention, resulting in failure to achieve the intended administrative purpose, etc., or any other situation where the regulator’s administration might be significantly disrupted if the purpose and content of the administrative guidance, etc. and the name of the official responsible are put into writing.
 - (C) “Extraordinary administrative inconvenience” will not be recognized merely because the regulator needs to process a large number of applications or to expeditiously process the application in question.

II-4-2 Points to Note in Interviews or Other Direct Communication

When a FSA staff member conducts an interview or other session of personal communication (meaning face-to-face interview, telephonic conversation, or communication by e-mail, facsimile, or any other means; the same applies hereinafter) with an officer or an employee of a financial service intermediary, the following points must be noted.

- (i) While in an interview or communication session, do FSA staff maintain discipline and integrity as well as an even-minded and immovable attitude?
- (ii) At the beginning of an interview or communication session, are its purpose, the names and job positions of the financial service intermediary’s participants, and other key information confirmed?
- (iii) In light of the purpose and content of the interview or communication session, is a suitable means chosen and are the venue, time of day, and participants of both parties appropriate?
- (iv) After the interview or communication session, do both parties confirm the summary of discussions and conclusions to share the same recognition, as necessary? In particular, if such discussions and conclusions

need to be kept confidential, do both parties clearly understand this?

- (v) If it is necessary to seek a superior's judgment in relation to a certain issue discussed in the interview or communication session, does the FSA staff member act appropriately, either by asking the superior's judgment beforehand or making a prompt report to the superior afterwards? If it is necessary to interview or communicate with multiple financial service intermediaries on an individual basis to discuss the same issues, are administrative integrity and transparency ensured?

II-4-3 Procedures for Communications and Consultations

FSA staff members, if having difficulties in deciding about the appropriateness of administrative guidance they are implementing through interviews, etc., should communicate with relevant FSA divisions as necessary for consultations on what to do regarding the guidance.

II-5 Points to Note in Enforcing Administrative Actions or Other Measures

II-5-1 Basic Workflow for Administrative Action (Adverse Action)

II-5-1-1 Administrative action

Major adverse actions (as defined in Article 2(iv) of the Administrative Procedure Act; the same applies hereinafter) enforced by FSA's supervisory divisions include: the issuance of a business improvement order under Article 37 of the Act on the Provision of Financial Services, the issuance of a business suspension order under Article 38(1) of the same Act, and the revocation of registration under Article 38 of the same Act. The basic workflow for rendering such administrative action is described as follows.

(1) Request for reporting under Article 35(1) of the Act on the Provision of Financial Service

- (i) If the FSA's on-site inspection or off-site monitoring (such as interviews or demanding submission of an accident notification) finds out any problem in a financial service intermediary's risk management practices, compliance management systems, governance systems, or other business practices, the FSA will ask the financial service intermediary to report its fact-checking of the problems, its own analyses of the causes of those problems, planned measures for improvement or remediation, and other comments on important issues pursuant to Article 35(1) of the Act on the Provision of Financial Services.
- (ii) If the FSA determines, as a result of verifying the report submitted by the financial service intermediary, that further scrutiny is needed, the FSA will ask the financial service intermediary to submit an additional report pursuant to Article 35(1) of the Act on the Provision of Financial Services.

(2) Follow-up on measures for improvement or remediation reported under Article 35(1) of the Act on the Provision of Financial Services

- (i) If the FSA determines, as a result of verifying the reports submitted by a financial service intermediary, that no serious issue is found in terms of the soundness and appropriateness of the financial service intermediary's business and that the financial service intermediary is capable of promoting its self-initiated improvement efforts, the FSA will follow up on the progress of the financial service intermediary's measures for improvement reported as set forth in (1) above through non-compulsory interviews or other communication.
- (ii) If the FSA determines, as a result of verifying the report submitted by the financial service intermediary, that further scrutiny is needed, the FSA will ask the financial service intermediary to submit an additional report pursuant to Article 35(1) of the Act on the Provision of Financial Services.

(3) Issuance of a business improvement order under Article 37 of the Act on the Provision of Financial Services

If the verification of the reports received under (1) above (including additional reports) finds out any serious problems, for example, in terms of the soundness and appropriateness of the financial service intermediary's business, or concludes that the financial service intermediary is unable to improve its business only by its self-

initiated efforts, the FSA will consider whether to issue an order for submission of a business improvement pursuant to Article 37 of the Act on the Provision of Financial Services.

(4) Issuance of a business suspension order under Article 38(1) of the Act on the Provision of Financial Services

If the FSA determines that it is expected to take a certain period of time for the financial service intermediary to improve its business, for which period the financial service intermediary will need to focus all its efforts on improvement activities, the FSA will consider whether to issue an order to suspend all or part of the relevant business for a specified period pursuant to Article 38(1) of the Act on the Provision of Financial Services. The period of suspension will be determined based on the length of time that is expected to be required for the improvement.

(5) Cancellation of registrations based on Article 38 of the Act on the Provision of Financial Services

If the verification finds out a large number of cases involving serious violations of laws or regulations or conduct detrimental to public interests and the FSA determines that the financial service intermediary is incompetent to continue its business, the FSA will consider whether to revoke its registration pursuant to Article 38 of the Act on the Provision of Financial Services.

When the FSA considers invoking any administrative action described in (3) to (5), not just the factors listed in the three categories below must be examined, but also whether there are any other points to consider must be scrutinized.

(i) Severity and maliciousness of the improper conduct

(A) Degree of detriment to public interests

Does the financial service intermediary avoid acting in a way to undermine confidence in financial markets or to cause any other detriment to public interests? One example of such conduct is to offer products that are extremely inadequate in terms of proper disclosure of customers' financial reporting.

(B) Degree of damage to users

Do a large number of users in extensive areas suffer damage? How serious is each user's damage?

(C) Maliciousness of the improper conduct

Is the financial service intermediary's conduct malicious? One example of malicious conduct is to ignore a lot of complaints from users of certain products and continue selling the same or similar products.

(D) Duration of the improper conduct and its repetitions

Has the conduct in question been continued over a long time or for a short period? Was it committed repeatedly or continuously? Or only once? Had the financial service intermediary committed any similar act in the past?

(E) Intentionality

Did the financial service intermediary intentionally act with an awareness of illegality or

inappropriateness? Or was it mere negligence?

(F) Institutional involvement

Was the conduct in question at the sole discretion of a sales manager or based on directions from a high-level officer? Were the financial service intermediary's top executives involved in the conduct?

(G) Attempt to cover up the improper conduct

After the financial service intermediary or the persons in charge had recognized the problem, did they attempt to conceal its evidence? If so, was it an institutional attempt?

(H) Involvement of antisocial forces

Were any antisocial forces involved in the conduct in question? If so, to what extent were they involved?

(ii) Appropriateness of governance systems and business operation systems leading to the causes of the improper conduct

(A) Are the representative directors and the board of directors fully aware of the significance of compliance and eager to promote compliance-conscious management?

(B) Is the financial service intermediary's internal audit department well prepared? Does it exert its functions properly?

(C) Are the financial service intermediary's compliance department and risk management department well prepared? Do they exert their functions properly?

(D) Are the financial service intermediary's relevant staff fully aware of the significance of compliance? Are they adequately trained or educated in the financial service intermediary?

(iii) Mitigating factors

In addition to the examination of the financial service intermediary's conduct in the respects described above, is there any factor that can allow the regulator to mitigate administrative enforcement? For example, is the financial service intermediary promoting self-initiated efforts for protecting users before receiving any administrative measure?

(6) Standard period for processing a case subject to administrative action

When the FSA is going to invoke any administrative action described in (3) to (5) above, such action should be rendered roughly within about one month, in principle, after receiving a report described in (1) above, or roughly within two months if the action is invoked by the FSA via a Local Finance Bureau, the action is invoked by a Local Finance Bureau but adjustments with the FSA are required, or the action is based on any law subject to concurrent jurisdiction of the FSA and another ministry or agency.

Note 1: To recognize the time for receiving a report, the following points need to be noted.

(i) If asking for submission of a report multiple times pursuant to Article 35(1) of the Act on the Provision of Financial Services (limited to the case where each request for submission is made within the time

frame specified above after receiving the immediately preceding report), the time for receiving the last report is regarded as the starting point of the time frame for administrative action.

- (ii) If asking for correction of a report submitted or for submission of additional documents (excluding inconsequential correction or provision of trivial information), the time for receiving corrected or additional documents is regarded as the starting point of the time frame for administrative action.

Note 2: The time spent for formal explanations or hearings are not included in the standard period for processing a case subject to administrative action.

Note 3: The standard period for processing a case subject to administrative action will apply to each set of information to be examined as the basis for invoking administrative action.

Note 4: In a case in which multiple parties are involved, the standard period for processing will start when all necessary reports from the parties are received.

II-5-1-2 Cancellation of Obligation to Make Progress Reports Based on a Business Improvement Order Issued under Article 37 of the Act on Provision of Financial Services

After issuance of a business improvement order to a financial service intermediary under Article 37 of the Act on the Provision of Financial Services, the FSA will follow up on the financial service intermediary's business improvement based on such order and try to encourage their improvement efforts. For this purpose, the FSA is, in principle, supposed to ask the financial service intermediary to report the progress of its business improvement plan submitted to the FSA, with the following points in mind.

- (1) If the FSA issues a business improvement order to a financial service intermediary under Article 37 of the Act on the Provision of Financial Services and asks the financial service intermediary to report the progress of its business improvement plan for a certain period, the financial service intermediary will be relieved of the obligation to report after expiration of the specified period.
- (2) If the FSA issues a business improvement order to a financial service intermediary under Article 37 of the Act on the Provision of Financial Services and asks the financial service intermediary to report the progress of its business improvement plan on an ongoing basis, without specifying a definite period, the FSA will cancel the financial service intermediary's obligation to report when the FSA determines that adequate improvement measures have been completed in line with the business improvement plan to address the problem triggering the business improvement order. In this regard, whether or not to cancel the financial service intermediary's obligation to report will be determined by evaluating the financial service intermediary's improvement efforts reported by the financial service intermediary.

II-5-2 Relations with the Administrative Procedure Act and Other Relevant Acts

- (1) Relations with the Administrative Procedure Act

When the FSA intends to render any adverse administrative action falling under any of the cases set forth in item (i) of Article 13(1) of the Administrative Procedure Act to a financial service intermediary, the FSA

must conduct hearings with the financial service intermediary. In case of any adverse administrative action falling under the case set forth in item (ii) of the same Article, the FSA must offer the opportunity for explanation to the financial service intermediary.

In either case, the FSA must show the grounds for the adverse administrative action pursuant to Article 14 of the same Act. (When such adverse administrative action is rendered in writing, its grounds must also be indicated in writing.)

If intending to refuse to grant the permission, license, or other approval requested under an application filed by a financial service intermediary, the FSA must show the grounds for the action of refusal pursuant to Article 8 of the same Act. (When such action is rendered in writing, its grounds must also be indicated in writing.)

On this occasion, merely enumerating the provisions of relevant Acts is not sufficient; instead, full accountability is required to clarify what facts underlie the decision to render the action and which Acts and standards are relied on to justify the action.

(2) Relations with the Administrative Complaint Review Act

If the FSA intends to render any administrative action for which an administrative complaint can be filed, the FSA must explain in writing that the financial service intermediary is entitled to file a complaint pursuant to Article 82 of the Administrative Complaint Review Act.

(3) Relations with the Administrative Case Litigation Act

If the FSA intends to render any administrative action for which an action for revocation can be instituted, the FSA must explain the information about the procedures for filing such action in writing pursuant to Article 46 of the Administrative Case Litigation Act.

II-5-3 System for Exchange of Opinions

Before rendering any adverse administrative action to a financial service intermediary, the FSA is supposed to conduct hearings with the financial service intermediary or give an opportunity for explanations to the financial service intermediary in accordance with the Administrative Procedure Act. In addition to and separately from such hearings or explanations, there is a system to allow the financial service intermediary to ask for multi-level exchange of opinions between the regulator and the financial service intermediary. This system is meaningful to help the parties share the same recognition as to the facts underlying the administrative action and their severity.

During the course of hearings in relation to the regulator's request for reporting under Article 35(1) of the Act on the Provision of Financial Services, the financial service intermediary in question may feel that an adverse administrative action is likely to be rendered. If the financial service intermediary asks for an opportunity of exchange of opinions between the regulator's senior officials (*1) and the financial service intermediary's executives (*2) in a situation where the regulator intends to render an adverse administrative

action which requires prior hearings or the grant of an opportunity for explanations, the regulator must arrange an opportunity for exchanging opinions as to the facts underlying the intended adverse administrative action and their severity. Such opinion exchange session must be held before a notice of hearings or an opportunity for explanations preceding the invocation of adverse administrative action is issued by the regulator, except where such administrative action needs to be urgently rendered.

Note 1: Example of the FSA's senior officials: director of the relevant division of the FSA and a Local Finance Bureau.

Note 2: If the financial service intermediary requests that an opportunity for exchange of opinions be arranged, such request must be made during the period after the FSA's receipt of the financial service intermediary's report explaining the facts underlying the intended adverse administrative action submitted under Article 35(1) of the Act on the Provision of Financial Services and before the FSA's issuance of a notice of hearings or an opportunity for explanations preceding the invocation of the disposition.

II-5-4 Communication with Relevant Authorities in Japan and Overseas Supervisors

When intending to render any adverse administrative action, such as the issuance of an order to request reporting, business improvement order or business suspension order or the revocation of registration, the FSA will give notice to other relevant authorities in Japan or overseas supervisors, as necessary.

II-5-5 Basic Stance for Public Disclosure of Adverse Administrative Actions

With regard to the adverse administrative actions, such as the issuance of a business improvement order, the facts underlying the invocation of those administrative actions, the content of administrative actions, and other information are supposed to be publicized, except when adverse administrative actions are related to the financial soundness of the financial service intermediaries concerned or when the disclosure of relevant facts and information is likely to impede the business improvement efforts of the financial service intermediaries concerned. The FSA expects such disclosure and information sharing will increase the predictability for other financial Institutions and prevent recurrence of similar incidents or problems.

III Supervisory Evaluation Points and Various Administrative Procedures for Supervising Financial Service Intermediaries (General)

III-1 Governance

To realize the sound development of the national economy, financial service intermediaries must try to develop their arrangements for compliance with laws and regulations and secure their customer protection voluntarily. In supervising financial service intermediaries, the FSA must verify their desirable governance from the viewpoints of whether their management teams' supervision of business operations and the supervision and control over the management teams are working effectively.

The FSA must supervise financial service intermediaries based on their real business operations, while respecting their independence and considering that their business types and sizes are diverse in the absence of special rules for them.

(1) Major supervisory viewpoints

To allow the governance of financial service intermediaries to work effectively, their officers and employees must recognize that financial service intermediaries have important social responsibilities as financial service providers and must fully understand their roles while participating in business operations. Particularly, management teams (meaning representatives, boards of directors and organizations that comprise representatives and others, and that make business decisions; the same applies hereinafter) must take leadership in developing arrangements for compliance with laws and regulations, accountability and management of customer information to prevent problems with customer protection.

In supervising financial service intermediaries, the FSA shall check whether their management teams consider the realization of sound business operations and appropriately fulfill their control and supervision roles to carry out their given responsibilities for developing a corporate culture giving priority to compliance with laws and regulations.

Under the Companies Act as amended in 2014 and various rules and regulations established by financial instruments exchanges, listed companies are supposed to have outside directors. In addition, financial instruments exchanges' rules and regulations encourage listed companies to strive for improving their corporate governance with full respect for Japan's Corporate Governance Code. In this way, listed companies are required to maintain a higher level of governance than unlisted companies.

Given the above, the FSA, when monitoring governance systems at financial service intermediaries as listed companies, shall pay attention to whether they appropriately develop their governance systems at the level as required by the Corporate Governance Code and verify whether these systems work appropriately.

As for financial service intermediaries whose parents are listed companies, the FSA shall check the parents' governance systems, including efforts to abide by the Corporate Governance Code, as far as required for the verification of these financial service intermediaries' governance systems.

Note: The Corporate Governance Code adopts principles-based approaches (rather than rules-based

approaches) and the “comply or explain” approach. Under the comply or explain approach, regulated firms may either comply with the principles specified by the regulator or explain why they do not if they choose not to comply. It should be noted that each market has defined the scope of application of the principles of the Corporate Governance Code.

Given the above, the FSA shall pay attention to the following points in verifying whether management teams that play key roles in operating financial service intermediaries exercise their functions properly and fulfill their given responsibilities:

(i) Management team

(A) Whether the management team gives top management priority to matters pertaining to the establishment and development of internal control systems, including the enhancement of internal control and audit departments (including the provision of sufficient authority and positions to officers and employees, the securement of their independence, and the qualitative and quantitative securement of sufficient human resources), and faithfully takes leadership in developing and disseminating specific policies for implementing the systems to secure not only better business performance, including the promotion of business operations and the expansion of profits, but also compliance with laws and regulations and appropriate business operations.

(Note) “The internal control department” in the Comprehensive Guidelines covers internal administrative control, legal affairs, risk management and other divisions designed to secure business operations that comply with public laws and regulations, internal regulations, etc.

(B) Whether the management team has appropriately set internal audit objectives in recognition of the importance of internal audit, developed functions to secure internal audit divisions’ exercise of their functions (including the independence of internal audit divisions) and confirmed their functioning regularly. Whether the management team has approved audit policies, priorities and other basic points of internal audit plans based on risk management at audited departments. Whether the management team has taken appropriate measures regarding internal audit results.

(C) Whether the management team is fully aware that emphatically eliminating and rejecting relations with anti-social forces is absolutely essential to maintain public confidence in financial service intermediaries and to ensure the soundness and appropriateness of their services, and in accordance with the Guidelines for Enterprises to Prevent Damage Caused by Anti-social Forces (Agreement at a Meeting of Cabinet Ministers Responsible for Anti-Crime Measures) issued on June 19, 2007 (hereinafter referred to as the “Government Guidelines”), the management team has declared the basic policy against anti-social forces approved by the board of directors, both internally and externally.

(ii) Internal control department

Whether internal control includes appropriate monitoring and verification to secure adequate business operations that comply with public laws and regulations, internal regulations, etc. Whether serious problems

found through internal control are appropriately reported to the management team.

(iii) Internal audit department

Internal audit, for the purpose of contributing to realizing business objectives of financial service intermediaries, verifies and assesses business operations and the appropriateness, effectiveness and rationality of internal control and management in a position independent from audited departments to provide their management teams with advice and recommendations, being one of the most important corporate activities for securing financial service intermediaries' autonomous management. Given the importance of internal audit, the FSA shall verify whether financial service intermediaries' internal audit is functioning effectively, while paying attention to the following points:

- (A) Whether the internal audit department is independent from audited departments to fully check them and arranged to implement effective internal audit.
- (B) Whether the internal audit department makes internal audit plans for all business operations of a financial service intermediary based on audited departments' risk management conditions and risk types.
- (C) Whether the internal audit department is implementing efficient and effective internal audit on audited departments based on internal audit plans.
- (D) Whether the internal audit department reports to the management team material matters found and pointed out through internal audit without delay.
- (E) Whether the internal audit department appropriately controls audited departments' improvements regarding matters pointed out through internal audit and reflects such improvements in later internal audit plans.

As for a sole proprietorship serving as a financial service intermediary or a financial service intermediary corporation consisting of one to several financial service intermediary business operators including its permanent representative, the FSA shall check the following points regarding such financial service intermediary's measures replacing internal audit:

- (A) Whether the financial service intermediary using external audit has made arrangements to give specific audit objectives to an external auditor and utilize audit results for operational improvements.
- (B) Whether a financial service intermediary conducting self-audit has made sufficient arrangements to secure the appropriateness of business operations regarding the following points:
 - a. Whether sufficient time is secured for self-audit.
 - b. Whether matters for self-audit are set with reference to internal regulations, etc.
 - c. Whether self-audit is conducted at least once a month.
 - d. Whether self-audit results are recorded and kept for at least three years.

(iv) Points to note for external audit

While any financial service intermediary is required in principle to have an internal audit department, a

financial service intermediary is allowed to use external audit instead of internal audit if external audit is viewed as more effective because of its small size. It is desirable that external audit as well as internal audit is effectively used to secure earnings, risk management or the effectiveness of internal control systems.

Given the above, the FSA shall pay attention to the following points in verification:

- (A) Whether a financial service intermediary has made arrangements to provide specific audit objectives to an external auditor and exploit audit results for operational improvements.
- (B) Whether important problems found or pointed out through external audit are reported to the board of directors or auditors without delay.
- (C) Whether audited departments improve problems pointed out through external audit within a certain period of time. Whether the internal audit department appropriately tracks and verifies such improvements.

(2) Supervisory approaches and actions

Regarding problems related to the effectiveness of financial service intermediaries' governance that are found through daily supervisory activities and reports on accidents, etc. (as defined by Article 19(3)(ii) of the Cabinet Office Order on Financial Service Intermediaries; the same applies hereinafter), the FSA shall track their voluntary business improvements through in-depth interviews on causes and improvements and requests for reports based on Article 35(1) of the Act on the Provision of Financial Services as necessary. If serious problems are identified with the securement of financial service intermediaries' sound and appropriate operations or with customer protection, the FSA shall take measures including the issuance of a business improvement order based on Article 37 of the Act on the Provision of Financial Services. If serious and malicious violations of laws and regulations, etc. are identified, the FSA shall consider necessary actions, including the issuance of a business suspension order based on Article 38(1) of the Act on the Provision of Financial Services.

III-2 Appropriateness of Business Operations

III-2-1 Legal Compliance

III-2-1-1 Control Environment for Legal Compliance

(1) Development of legal compliance management systems

For the development of Japan's finance and economy, financial instruments and services must be provided in appropriate ways. Users' confidence in financial service intermediaries is one of the most important factors in this respect. Financial service intermediaries are strongly required to strictly comply with laws and regulations as well as various business rules, and conduct sound and appropriate business operations.

The FSA shall pay attention the following points when verifying financial service intermediaries' development of legal compliance systems according to their business operations:

- (i) Whether the financial service intermediary has positioned legal compliance as one of the top business priorities and developed a basic policy for legal compliance, a specific legal compliance program and relevant codes of conduct (an ethics code and a compliance manual). Whether officers and employees have been well informed of these policy documents and fully understand and implement them.
- (ii) Whether the compliance program and codes of conduct are assessed and followed up regularly or as necessary. Whether they are updated.
- (iii) Whether legal compliance information is accurately shared among sales divisions (meaning all divisions operating mainly for gaining earnings; referred to as "sales departments" hereinafter), divisions or persons in charge of legal compliance and the management team.
- (iv) Whether the financial service intermediary has established and enhanced training and education systems regarding legal compliance and endeavors to develop and improve the legal compliance awareness of its officers and employees. Whether the financial service intermediary adequately assesses, follows up and updates training programs to secure the effectiveness of training.
- (v) Whether persons in charge of legal compliance management at the financial service intermediary are arranged to fully exercise their functions to enhance its internal control system and contribute to adequate business operations. Whether the financial service intermediary has secured the internal control department's independence and authorized the department to fully check the sales department. Whether the internal audit department assesses and follows up on internal control managers' exercise of functions.

(2) Supervisory approaches and actions

Regarding financial service intermediaries' legal compliance system problems identified through daily supervisory operations and accident reports, the FSA shall conduct in-depth interviews and request reports based on Article 3 (1) of the Act on the Provision of Financial Services as necessary to check their voluntary business improvements. If financial service intermediaries are identified as having serious problems regarding

their securement of sound and appropriate business operations or customer protection, the FSA shall take actions, such as the issuance of a business improvement order based on Article 37 of the Act on the Provision of Financial Services. If serious and malicious legal violations are identified, the FSA shall consider necessary actions, including the issuance of a business suspension order based on Article 38(1) of the Act on the Provision of Financial Services.

III-2-1-2 Supervisory Response to Problematic Conduct

Supervisory actions on accidents involving officers and employees shall be handled strictly as follows:

(1) Major supervisory viewpoints

(i) First accident report

If the first report comes on an accident found at a financial service intermediary, the FSA shall check the following points. If a financial service intermediary submits a written accident report without making the first report, the FSA shall take the same procedures.

- (A) Whether the accident has been reported promptly to the internal control and audit departments and the board of directors in line with legal compliance rules, etc.
- (B) Whether facts suspected of conflicting with criminal law have been reported to police or any other relevant organizations.
- (C) Whether any division independent from a division where the accident occurred has investigated or figured out the accident.

(ii) Verifying the appropriateness of business operations

The relationship between accidents and the appropriateness of financial service intermediaries' business operations shall be verified from the following viewpoints:

- (A) Whether any officer has been involved in the accident and whether there has been any company-wide involvement in the accident.
- (B) What impacts the accident is expected to have on business operations and customers of the financial service intermediary.
- (C) Whether the internal check-and-balance function is properly working.
- (D) Whether the financial service intermediary has formulated measures to prevent the recurrence of accidents, is equipped with sufficient self-corrective functions and has clarified the locus of responsibility for the accident. Whether the financial service intermediary has analyzed the cause of the accident, formulated measures to prevent the recurrence of the accident at the initiative of the management team and communicated these measures to sales and other departments.
- (E) Whether the financial service intermediary acted appropriately after the accident came to light.
- (F) Whether the financial service intermediary has kept records of property benefits provided for making up

for all or part of losses from the accident and of their calculation base. Whether the internal control department independent from the sales department is arranged to check the provision.

(2) Supervisory approaches and actions

When accidents at financial service intermediaries are found through their reports or their submission of written reports, the FSA shall check their voluntary improvements through interviews on facts, analysis of causes, and improvements and countermeasures, and through requests for reports based on Article 35(1) of the Act on the Provision of Financial Services as necessary. If financial service intermediaries are identified as having serious problems regarding their securement of sound and appropriate business operations or customer protection, the FSA shall take actions, such as the issuance of a business improvement order based on Article 37 of the Act on the Provision of Financial Services. If serious and malicious legal violations are identified, the FSA shall consider necessary actions, including the issuance of a business suspension order based on Article 38(1) of the Act on the Provision of Financial Services.

III-2-1-3 Measures against Organized Crime

(1) Major supervisory viewpoints

To prevent financial institutions from being used for organized crime, money laundering and terrorism financing to contribute to increasing criminal proceeds, they must develop advanced and strong institution-wide legal compliance systems. Particularly, they are required to develop internal control systems for measures based on the Act for Prevention of Transfer of Criminal Proceeds (hereinafter referred to as “Anti-Criminal Proceeds Act”), including verification at the time of transaction, storage of transaction records, etc. and notification of suspicious transactions (meaning measures for verification at the time of transaction, etc. provided in Article 11 of the Anti-Criminal Proceeds Act; hereinafter referred to as “measures for verification at the time of transaction”). The development of such internal control systems is significant for preventing the abuse of financial services through organized crime and for securing confidence in Japan’s financial and capital markets.

Financial service intermediaries that mediate transactions between financial institutions and their customers are positioned to play key roles in preventing financial institutions and services from being used for organized crime, money laundering and terrorism financing.

Considering such position of financial service intermediaries and the legal purpose of securing financial service intermediaries’ sound and appropriate business operations to contribute to the sound development of the national economy, the FSA, when verifying financial service intermediaries’ development of systems against organized crime, shall take into account the business sizes and characteristics of financial service

intermediaries and pay attention to whether they have developed systems to secure their sound and appropriate business operations to prevent themselves from facilitating, encouraging or participating in organized crime or from taking actions to impede financial institutions' measures for verification at the time of transaction. The actions include a failure to fulfill duties as agreed with financial institutions.

(2) Supervisory approaches and actions

Regarding financial service intermediaries' problems pertaining to actions against organized crime identified through daily supervisory operations and accident reports, the FSA shall conduct in-depth interviews and request reports based on Article 35(1) of the Act on the Provision of Financial Services as necessary to check their voluntary business improvements. If financial service intermediaries are identified as having serious problems regarding their securement of sound and appropriate business operations or customer protection, the FSA shall take actions, such as the issuance of a business improvement order based on Article 37 of the Act on the Provision of Financial Services. If serious and malicious legal violations are identified, the FSA shall consider necessary actions, including the issuance of a business suspension order based on Article 38(1) of the Act on the Provision of Financial Services.

III-2-1-4 Prevention of Damage that May be Inflicted by Anti-Social Forces

(1) Background

Eliminating anti-social forces from society is a task critical to ensuring the order and safety of society, so it is necessary and important for corporations to promote efforts to ban any relations with anti-social forces from the viewpoint of fulfilling their social responsibility. In particular, as financial service intermediaries have a public nature and play an important economic role, they need to exclude anti-social forces from financial instruments transactions in order to prevent infliction of damage not only on their officers and employees but also on their customers and other stakeholders.

Needless to say, if financial service intermediaries are to maintain the soundness and appropriateness of their business operations, it is essential that they deal with anti-social forces in accordance with laws and regulations without bowing to pressure from them. Therefore, financial service intermediaries must strive, on a daily basis, to develop a control system for banning any relations with anti-social forces in accordance with the purpose of the "Guideline for How Companies Prevent Damage from Anti-Social Forces" (agreed upon at a meeting on June 19, 2007 of cabinet ministers responsible for anti-crime measures).

In particular, anti-social forces in recent times have become increasingly sophisticated in their efforts to obtain funds, disguising their dealings as legitimate economic transactions through the use of affiliated companies in order to develop business relations with ordinary companies. In some cases, the relations thus

developed eventually lead to problems. In order to deal with such cases properly, the management teams of financial service intermediaries need to take a resolute stance and implement specific countermeasures.

It should be noted that if a financial service intermediary delays specific actions to resolve a problem involving anti-social forces on the grounds that unexpected situations, such as threats to the safety of officers and employees, could otherwise arise, the delay could increase the extent of the damage that may be ultimately inflicted on the financial service intermediary and its officers and employees.

(Reference) “Guideline for How Companies Prevent Damage from Anti-Social Forces” (agreed upon at a meeting on June 19, 2007 of cabinet ministers responsible for anti-crime measures)

(i) Basic principles on prevention of damage that may be inflicted by anti-social forces

- Firm-wide response
- Cooperation with external expert organizations
- Ban on any relations, including transactions, with anti-social forces
- Legal responses, both civil and criminal, in the event of an emergency
- Prohibition of engagement in secret transactions with and provision of funds to anti-social forces

(ii) Identification of anti-social forces

In judging whether specific groups or individuals constitute “anti-social forces,” which are defined as groups or individuals that pursue economic profits through the use of violence, threats, and fraud, it is necessary not only to pay attention to whether they fit the definition in terms of their affiliation, such as whether they constitute or belong to “Boryokudan” crime syndicates, “Boryokudan” affiliated companies, “Sokaiya” racketeer groups, groups engaging in criminal activities under the pretext of conducting social campaigns or political activities, and crime groups specialized in intellectual crime, but also to whether they fit the definition in terms of the nature of their conduct, such as whether they are committing violent acts of demand, or making unreasonable demands that go beyond the limits of legal liability (refer to the “Key Points of Measures against Organized Crime,” a directive issued in the name of the Deputy Commissioner-General of the National Police Agency on December 22, 2011.).

(2) Major supervisory viewpoints

The financial service intermediary should not have any relations with anti-social forces and, in cases where it has established a relationship with an anti-social force unwittingly, the FSA while also giving consideration to the characteristics of specific transactions, pays attention to the following points, among others, in order to examine its control environment for banning any relations with anti-social forces as soon as possible after the counterparty has been found to be an anti-social force, as well as its control environment for dealing with unreasonable demands by anti-social forces appropriately. Then, the FSA takes care to avoid any mechanical or uniform application of the same rules, appropriately considering the sharing of roles in banning relations

with anti-social forces between the financial service intermediary and a financial institution with which a customer of the financial service intermediary is about to conclude a contract (other than any contract with the financial service intermediary) under a financial service contract (meaning a contract that the customer concludes through financial service intermediation (meaning intermediation cited by each item of Article 11(2) of the Act on the Provision of Financial Services, intermediation prescribed by paragraph (3) of the same Article, an act cited by each item of paragraph (4) of the same Article and intermediation prescribed by paragraph (5) of the same Article) the same applies hereinafter).

(i) Firm-wide response

In light of the need and importance of an action to ban any relationship with anti-social forces in an organized manner, whether the responsibility of responding to the situation is not left solely to the relevant individuals or divisions but the management team including directors are appropriately involved? Is there a policy calling for firm-wide response? In addition, is there a policy calling for the corporate group as a whole, not just the involved financial service intermediary alone, to take on an effort to exclude anti-social forces?

(ii) Development of a centralized control environment through anti-social forces response division

Has the financial service intermediary established a division in charge of supervising responses to ban any relationship with anti-social forces (“anti-social forces response division”) so as to develop a centralized control environment for preventing infliction of damage by anti-social forces? Is this division properly functioning?

In particular, whether the financial service intermediary pays sufficient attention to the following points in developing the centralized control environment must be checked.

(A) Whether the anti-social forces response division is actively collecting and analyzing information on anti-social forces and has developed a database to manage such information in a centralized manner and has a system to appropriately update it (i.e. addition, deletion or change of information in the database). Further, whether the division is making efforts to share information within the group in the process of collecting and analyzing such information, while making active use of information provided by self-regulatory organizations. In addition, whether the anti-social forces response division has a system to take advantage of information on anti-social forces for screening counterparties of transactions and evaluating the attributes of shareholders of the financial service intermediary.

(B) Whether the financial service intermediary makes sure to maintain the effectiveness of measures to ban any relations with anti-social forces by, for example, having the anti-social forces response division develop a manual for dealing with anti-social forces, provide on-going training, and foster cooperative relationships with external expert organizations such as the police, the National Center for Removal of Criminal Organizations, and lawyers on an ongoing basis. In particular, whether the financial service intermediary is prepared to report to the police immediately when it faces the imminent prospect of being

threatened or becoming the target of an act of violence, by maintaining close communications with the police on a daily basis so as to develop a systematic reporting system and build a relationship that facilitates cooperation in the event of a problem.

(C) Whether the financial service intermediary has a structure in which relevant information is swiftly and appropriately conveyed to the anti-social forces response division for consultation when transactions with anti-social forces are found or such forces have made unreasonable demands. Further, whether the anti-social forces response division has a structure to swiftly and appropriately report relevant information to management. In addition, whether the anti-social forces response division has a structure to ensure the safety of individuals encountering anti-social forces in person and to support divisions involved in dealing with them.

(iii) Execution of appropriate advance screening

Does the financial service intermediary take measures to ban allowing anti-social forces to become a counterparty to a transaction, by conducting appropriate advance screening using information on such forces in order to prevent transactions with anti-social forces, and making sure provisions regarding the exclusion of organized crime group are introduced in all contracts and terms of transactions?

(iv) Execution of appropriate follow up review

Whether, for the purpose of making sure any relationships with anti-social forces are eliminated, there is a structure for conducting an appropriate follow-up review on existing contracts.

(v) Efforts to terminate transactions with anti-social forces

(A) Does the financial service intermediary have a system under which information confirming the existence of a transaction with anti-social forces is swiftly and appropriately reported to management, including directors, etc., via the anti-social forces response division, and response to the situation is made under appropriate directions and involvement by management?

(B) Is the financial service intermediary making efforts to terminate transactions with anti-social forces, while maintaining cooperative relationships with external expert organizations, such as the police, the National Center for Removal of Criminal Organizations, and lawyers, on an ongoing basis?

(C) When the financial service intermediary has learned through a follow-up review after initiating a transaction that the counterparty is a member of an anti-social force, does it take care to prevent the provision of benefits to anti-social forces, such as trying to eliminate the relationships as soon as possible?

(D) Does the financial service intermediary have a structure to prevent providing funds or engaging in inappropriate or unusual transactions for whatever reason if the counterparty has been found to be an anti-social force?

(vi) Dealing with unreasonable demands by anti-social forces

(A) Does the financial service intermediary have a system under which the information that anti-social forces have made unreasonable demands is swiftly and appropriately reported to management, including directors, etc., via the anti-social forces response division, and response to the situation is made under appropriate directions and involvement by management?

(B) Does the financial service intermediary actively consult external expert organizations, such as the police, the National Center for Removal of Criminal Organizations, and lawyers, when anti-social forces make unreasonable demands, and respond to such unreasonable demands based on guidelines set by the National Center for Removal of Criminal Organizations and other organizations?

In particular, does the financial service intermediary have a structure to report to the police immediately when there is an imminent prospect of a threat being made or an act of violence being committed?

(C) Does the financial service intermediary have, in response to unreasonable demands by anti-social forces, a policy to take every possible civil legal action and to avoid hesitating to seek the initiation of a criminal legal action, by proactively reporting damage to the authorities?

(D) Does the financial service intermediary ensure that the division in charge of handling problematic conduct promptly conducts a fact-finding investigation upon request from the anti-social forces response division, in cases where unreasonable demands from anti-social forces are based on problematic conduct related to business activity or involving an officer or employee?

(vii) Management of shareholder information

Does the financial service intermediary manage shareholder information properly, through means such as regularly checking the transaction status of its own shares and examining information regarding the attributes of its shareholders?

(3) Supervisory approaches and actions

Regarding financial service intermediaries' problems pertaining to systems for banning any relations with anti-social forces identified through inspections, daily supervisory operations, etc., the FSA shall conduct in-depth interviews and request reports based on Article 35(1) of the Act on the Provision of Financial Services as necessary to check their voluntary business improvements. If financial service intermediaries are identified as having serious problems regarding their securement of sound and appropriate business operations or customer protection due to extremely vulnerable internal control systems under which they fail to take appropriate actions to dissolve inappropriate relations with anti-social forces while recognizing the provision of money to or inappropriate business relations with anti-social forces, the FSA shall take actions, such as the issuance of a business improvement order based on Article 37 of the Act on the Provision of Financial Services.

If serious and malicious legal violations are identified, the FSA shall consider necessary actions, including the issuance of a business suspension order based on Article 38(1) of the Act on the Provision of Financial Services.

III-2-2 Control Environment for Management of Information Related to Customers, etc.

As customer information constitutes the basis of financial instruments transactions, it is extremely important to ensure the appropriate management of customer information.

In particular, information regarding individual customers needs to be handled in an appropriate manner in accordance with the Cabinet Office Order on Financial Service Intermediaries; the Act on the Protection of Personal Information (hereinafter referred to as the “Personal Information Protection Act”); the Guidelines on the Act on the Protection of Personal Information (General rules), the same Guidelines (Provision to foreign third parties), the same Guidelines (Obligation to confirm and record at the time of provision to third parties), the same Guidelines (Pseudonymized and anonymized information) (hereinafter collectively referred to as the “Personal Information Protection Act Guidelines”); the Guidelines on the Protection of Personal Information in the Financial Sector (hereinafter referred to as the “Financial Sector Guidelines”) and the Guidelines for Practical Affairs regarding Safety Control Measures specified in the Guidelines on the Protection of Personal Information in the Financial Sector (hereinafter referred to as the “Practical Guidelines”).

Given that financial service intermediaries are in a position to acquire corporate information (meaning corporate information cited by Article 118(iii) of the Cabinet Office Order on Financial Service Intermediaries; the same applies hereinafter), they are required to strictly manage such information and prevent market misconduct, such as insider trading.

As financial service intermediaries are required to establish systems to appropriately manage customer and corporate information (hereinafter referred to as “information related to customers, etc.”), attention shall be paid to the following points:

(1) Points to note regarding systems to manage information related to customers, etc.

- (i) Whether the management team has recognized the necessity and importance of ensuring the appropriateness of managing information related to customers, etc. and implemented the development of an internal control environment, such as the establishment of an organization (including appropriate checks between divisions) and the formulation of internal regulations, to ensure the appropriate management of such information.
- (ii) Whether the financial service intermediary has formulated specific standards for handling information related to customers, etc. and communicated them to all officers and employees through the provision of training and other means. Whether the financial service intermediary, when formulating the standards, has fully considered securing procedures to be taken for the provision of the information to other parties in accordance with the abovementioned laws and regulations, the Personal Information Protection Act Guidelines, the Financial Sector Guidelines, the Practical Guidelines, etc.

(iii) Whether the financial service intermediary has established systems to appropriately verify the management of information related to customers, etc., on a timely basis, including the management of access to information related to customers, etc. (such as preventing access rights assigned to certain people from being used by others), measures to prevent the misappropriation of information related to customers, etc. by insiders, and a robust information management system that prevents unauthorized access from the outside.

Whether the financial service intermediary has attempted to implement appropriate measures for preventing wrongful acts utilizing information related to customers, etc., such as the dispersion of authority concentrated upon specific personnel and the enhancement of controls and checks on personnel who have broad powers.

(iv) See III-2-10 (1) for measures to be taken for outsourcing the handling of information related to customers, etc.

(Note) “Outsourcing” includes all kinds of contracts for financial service intermediaries to have others handle information related to customers, etc. Even without outsourcing contracts, operations identified effectively as the same as outsourcing and outsourced operations done overseas represent outsourcing.

(v) Whether the financial service intermediary has established arrangements and procedures for appropriately reporting the leakage of information related to customers, etc. to responsible divisions and notifying relevant customers of the leakage, reporting the leakage to the authorities and publishing the leakage in a prompt and appropriate manner to prevent secondary damage.

Whether the financial service intermediary analyzes the causes of information leakage and implements measures designed to prevent information leakage from recurring. Whether the financial service intermediary studies information leakage cases at other firms and considers measures to prevent their recurrence at its organization.

(vi) Whether the financial service intermediary dealing with multiple financial institutions has developed arrangements (customer information management arrangements such as the separation of organizations or responsible persons, the establishment of information wall systems, the formulation of internal rules on information blockade and the promotion of employee education) to appropriately manage customer information to prevent customer information gained through business operations for a financial institution from being used for those for another financial institution without consent from relevant customers.

Whether customers’ consent to the above use of customer information is acquired appropriately according to the following (2)(iv).

(vii) Whether the financial service intermediary has acquired customers’ consent to the use of their non-disclosure information (including non-disclosure financial information prescribed by Article 20(2)(i)(a) of the Cabinet Office Order on Financial Service Intermediaries, non-disclosure insurance information prescribed by Article 20(2)(i)(b) of the same order and non-disclosure loan information prescribed by Article 111(1)(xxiv) of the same order) handled through financial service intermediary business operations for any other financial service intermediary business operations or concurrent business operations, or the

use of their non-disclosure information handled through concurrent business operations for financial service intermediary business operations, based on laws and regulations, and self-regulation rules of the certified Financial Service Intermediary Business Association, appropriately according to the following (2)(iv).

(viii) Whether the internal audit department, etc. of the financial service intermediary audits a wide range of business operations pertaining to the management of information related to customers, etc. regularly or as necessary.

Also, has the financial service intermediary implemented appropriate measures, such as training programs, in order to increase the specialization of the staff engaged in audits pertaining to the management of information related to customers, etc.?

(2) Points to note regarding management of personal information

(i) Whether the financial service intermediary has implemented the following necessary and appropriate measures for the safe management of information concerning individual customers and the supervision of employees and any parties handling such information under contracts with the financial service intermediary in order to prevent such information from being leaked, lost or damaged in accordance with Article 36 of the Cabinet Office Order on Financial Service Intermediaries.

(Necessary and appropriate measures for the safe management)

(A) Measures based on Article 8 of the Financial Sector Guidelines

(B) Measures based on I and Appendix 2 of the Practical Guidelines

(Necessary and appropriate measures for the supervision of employees)

(C) Measures based on Article 9 of the Financial Sector Guidelines

(D) Measures based on II of the Practical Guidelines

(Necessary and appropriate measures for the supervision of parties handling such information under contracts)

(E) Measures based on Article 10 of the Financial Sector Guidelines

(F) Measures based on III of the Practical Guidelines

(ii) Whether the financial service intermediary has implemented measures to ensure that information regarding the race, religious beliefs, family origin, registered domicile, healthcare and criminal records of individual customers, as well as other specified non-disclosure information (Note), are not used except for the cases specified in each item of Article 5(1) of the Financial Sector Guidelines in accordance with Article 38 of the Cabinet Office Order on Financial Service Intermediaries.

(Note) Other specified non-disclosure information includes the following:

- a. Information regarding labor union membership
- b. Information regarding ethnicity
- c. Information regarding sexual orientation

- d. Information regarding matters set forth in Article 2(iv) of the Order for Enforcement of the Act on the Protection of Personal Information
 - e. Information regarding matters set forth in Article 2(v) of the Order for Enforcement of the Act on the Protection of Personal Information
 - f. Information regarding facts that a customer has suffered damage by crime
 - g. Information regarding social status
- (iii) Whether the financial service intermediary has taken the following measures in addition to (i) and (ii) above considering that if personal information, including credit card information (number and expiration date, etc.) (hereinafter referred to as “credit card information, etc.”) is leaked, secondary damage such as spoofed purchases via unauthorized use of such information may occur.
- (A) Whether the financial service intermediary has set an appropriate period of time for keeping credit card information, etc., which takes into account the purpose of use and other circumstances, and whether it limits the locations where such information is kept, and disposes of the information in a prompt and appropriate manner after the retention period has lapsed.
 - (B) Whether the financial service intermediary has implemented appropriate measures when displaying credit card information, etc. on computer monitors, such as displaying part of credit card numbers, unless needed for business operations.
 - (C) Whether the financial service intermediary conducts periodic or as-needed checks and on-site inspections to confirm whether rules and systems to protect credit card information, etc. are functioning effectively.
- (iv) Has the financial service intermediary taken measures to comply with Article 12 of the Financial Sector Personal Information Protection Guidelines and other applicable provisions with regard to the provision of personal data to third parties? In particular, does the financial service intermediary obtain consents from individual customers while paying attention to the following points according to the nature and methods of the business?
- (A) When obtaining a consent from an individual customer for the provision of his/her information to a third party in a non-face-to-face manner such as via PC or smartphone, etc., whether the financial service intermediary has designed the relevant webpage so that individual customers can easily understand the content and purpose of use of information provided to such third party by making it more customer-friendly in terms of the text of consent, letter size, screen specifications, manner of giving consent, etc. in accordance with Article 3 of the Financial Sector Personal Information Protection Guidelines.
 - (B) Even in the case where the financial service intermediary has obtained a consent for the provision of personal information to a third party from an individual customer in the past, if the third party to which the information is provided or the content of information to be provided is different from the past case or if the scope of provision of such information exceeds the necessary extent to achieve a utilization purpose specified before, whether the financial service intermediary obtains a consent from such individual

customer again.

(C) In cases where personal information of individual customers is provided to multiple third party contractors or where the purpose of use of personal information varies at each third party contractor, whether the financial service intermediary considers the scope of the third parties for which a consent of the customer is necessary to obtain, and how and when to obtain such consent in proper manner so that the individual customers are able to understand the fact that their information will be provided to multiple third parties, as well as the purpose of use at each third party contractor.

(D) In obtaining consent for the provision of personal information to third parties, whether the financial service intermediary is mindful not to cause any risk of abuse of superior position or conflict of interest between the financial service intermediary and the individual customer. For example, whether an individual customer is forced to give consent beyond the reasonable scope of provision in terms of the third parties to which the personal information is provided, the purpose of use, or the content of information to be provided.

(3) Points to note regarding prevention of insider trading and other unfair transactions using corporate-related information

(i) Whether the financial service intermediary has developed an appropriate internal control environment, including internal regulations pertaining to securities trading and other transactions by officers, employees and persons close to them, and their updating.

(ii) Whether the financial service intermediary makes efforts to enhance the sense of legal compliance, such as strengthening professional ethics and ensuring full understanding of relevant laws and regulations and internal regulations, to prevent insider trading and other unfair trading by its officers or employees.

(iii) Whether the financial service intermediary implements appropriate measures to prevent unfair transactions, such as fact-finding surveys on securities trading and other transactions by its officers, employees and people close to them in a position to acquire corporate-related information and the as-needed revision of methods for their transactions.

(4) Preventing unintended use of credit information

Financial service intermediaries and their officers and employees are required under Article 37 of the Cabinet Office Order on Financial Service Intermediaries to take measures to ensure that information on individual fund consumers' loan repayment capacity provided by credit information organizations (meaning those that collect information on fund consumers' loan repayment capacity and provide such information to financial service intermediaries) should not be used for purposes other than the assessment of fund consumers' loan repayment capacity.

In supervising financial service intermediaries that receive such credit information, the FSA shall pay attention to the following points:

(i) Development of internal regulations based on laws and regulations

Whether the financial service intermediary has developed internal regulations, etc. to specifically provide for internal systems, methods, etc. to prevent unintended use of credit information based on laws and regulations, and self-regulation rules of the certified Financial Service Intermediary Business Association.

(ii) Development of arrangements to prevent unintended use, etc. of credit information based on laws and regulations

(A) Whether the management team recognizes unintended use, etc. of credit information as a serious legal violation and has taken leadership in developing arrangements to prevent unintended use, etc. of credit information.

(B) Whether internal training, etc. is implemented for officers and employees to appropriately use credit information based on internal regulations, etc.

(C) Whether the financial service intermediary has developed arrangements to prevent unintended use, etc. of credit information in line with internal regulations, etc. In checking this point, attention shall be paid to the following matters:

a. Whether the financial service intermediary has promoted the management of access to requests for credit information from credit information organizations (including a ban on the use of provided information by anyone other than those authorized to access such information) and developed arrangements to request credit information in a manner to limit the use of such information to the assessment of loan repayment capacity, etc.

b. Whether the financial service intermediary has developed arrangements to specify officers and employees using credit information provided by a credit information organization and limit the use to the assessment of loan repayment capacity, etc.

(Note) It must be noted that if credit information acquired for credit monitoring is used secondarily for solicitation or an internal database into which credit information is put is used for solicitation (for such purposes as the preservation of claims), such use will amount to the use for purposes other than the assessment of loan repayment capacity.

c. Whether the financial service intermediary developed arrangements to retroactively confirm applications for loan contracts, purposes for requesting credit information, fund consumers' consent to the acquisition and use of credit information, the use of credit information and other matters regarding requesting and using credit information.

d. Whether the financial service intermediary has taken measures to prevent credit information from being leaked by holders of such information when officers or employees are transferred or retired or when sales offices are consolidated.

e. Whether the financial service intermediary has taken appropriate measures to prevent any unintended use of credit information, including the dispersion of powers concentrated on some officers and

employees for requesting and using credit information and the enhancement of controls or checks on officers and employees with a wide range of powers for requesting and using credit information.

(iii) Internal control and other departments' measures to secure the effectiveness of appropriate credit information use

Whether the internal control division at the financial service intermediary tracks and verifies the use of credit information through regular checks and internal audit. Whether the financial service intermediary revises methods for using credit information as necessary to secure the effectiveness of appropriate credit information use based on verification results.

(5) Supervisory approaches and actions

Regarding financial service intermediaries' problems pertaining to arrangements to control information related to customers identified through daily supervisory operations and accident reports, the FSA shall conduct in-depth interviews and request reports based on Article 35(1) of the Act on the Provision of Financial Services as necessary to check their voluntary business improvements. If financial service intermediaries are identified as having serious problems regarding their securement of sound and appropriate business operations or customer protection, the FSA shall take actions, such as the issuance of a business improvement order based on Article 37 of the Act on the Provision of Financial Services. If serious and malicious legal violations are identified, the FSA shall consider necessary actions, including the issuance of a business suspension order based on Article 38(1) of the Act on the Provision of Financial Services.

III-2-3 Measures to Prevent Customers' Misidentification

(1) Purpose and significance

In some cases, a financial service intermediary locates its sales offices in a building accommodating a branch of another financial institution or links its site to that of another financial institution to improve customer convenience and streamline administrative work. In these cases, it is important that measures should be taken for preventing adverse effects on customers. See VI-1-4-1-1 (3) and VI-1-4-1-3 (1).

(2) Major supervisory viewpoints

(i) Whether the financial service intermediary that locates its sales or business office at a building or floor used for another financial institutions' headquarters, sales office, business office or agencies, etc. (including those providing financial institution instruments and services under contracts with customers, such as an insurance broker; the same applies to III-2-3 (2)) has given sufficient explanations to customers on the following points

to prevent customers' misidentification and crime, and to protect customer information. Whether the financial service intermediary that shares computer equipment with another financial institution has developed arrangements to secure its compliance with its own information control rules.

(A) The financial service intermediary is separate from the financial institution or its agencies, etc.

(B) The instruments and services provided by the financial service intermediary differ from those provided by the financial institution or its agencies, etc.

(ii) Whether the financial service intermediary that links its site to that of another financial institution has allowed customers to clearly identify whether the site they access is of the financial service intermediary or the financial institution, by taking appropriate measures, such as a measure to clearly notify customers of a transition to the site of the financial institution before the transition, in order to prevent customers' misidentification.

(3) Supervisory approaches and actions

Regarding financial service intermediaries' problems pertaining to the prevention of customers' misidentification, etc. identified through daily supervisory operations and accident reports, the FSA shall conduct in-depth interviews and request reports based on Article 35(1) of the Act on the Provision of Financial Services as necessary to check their voluntary business improvements. If financial service intermediaries are identified as having serious problems regarding their securement of sound and appropriate business operations or customer protection, the FSA shall take actions, such as the issuance of a business improvement order based on Article 37 of the Act on the Provision of Financial Services. If serious and malicious legal violations are identified, the FSA shall consider necessary actions, including the issuance of a business suspension order based on Article 38(1) of the Act on the Provision of Financial Services.

III-2-4 Prohibition of Name-Lending

When the financial service intermediary judges whether a name used by another corresponds to "its name" prescribed in Article 21 of the Act on the Provision of Financial Services, it should be noted the financial service intermediary's abbreviated name corresponds to "its name" if the financial service intermediary allows its abbreviated name to be used.

III-2-5 Duty of Good Faith and Fairness (Related to Article 24 of the Act on the Provision of Financial Services)

(1) Major supervisory viewpoints

Whether the financial service intermediary recognizes that it is required to act fairly and in good faith with customers, and acts fairly and in good faith with customers irrespective of outsourcing, capital, and personal relations with financial institutions as parties to financial service contracts.

(2) Supervisory approaches and actions

Regarding financial service intermediaries' problems pertaining to the requirements for good faith and fairness identified through daily supervisory operations and accident reports, the FSA shall conduct in-depth interviews and request reports based on Article 35(1) of the Act on the Provision of Financial Services as necessary to check their voluntary business improvements. If financial service intermediaries are identified as having serious problems regarding their securement of sound and appropriate business operations or customer protection, the FSA shall take actions, such as the issuance of a business improvement order based on Article 37 of the Act on the Provision of Financial Services. If serious and malicious legal violations are identified, the FSA shall consider necessary actions, including the issuance of a business suspension order based on Article 38(1) of the Act on the Provision of Financial Services.

III-2-6 Principle of Suitability Pertaining to Conclusion of Specified Financial Service Contracts

Regarding the conclusion of specified financial service contracts (meaning specified financial service contracts prescribed in Article 31(2) of the Act on the Provision of Financial Services), financial service intermediaries are required to take note of customers' knowledge, experiences, asset status, and transaction details and conditions meeting the purposes for concluding specified financial service contracts and risk management capabilities and secure the appropriate solicitation according to the attributes of customers, based on Article 40 of the Financial Instruments and Exchange Act applied mutatis mutandis to financial service intermediaries. Financial service intermediaries are also required to conduct financial service intermediary business operations fairly and in good faith with customers (Article 24 of the Act on the Provision of Financial Services).

To this end, financial service intermediaries are required to establish arrangements to appropriately understand the details of the relevant financial services they provide before the conclusion of specified financial service contracts. They are also required to develop customer management arrangements to accurately understand customers' attributes and transactions. Furthermore, they are required to consider and assess whether there are rational reasons for the details of financial services to suit the attributes of customers. They are then required not to conduct intermediation that lacks such rational reasons or are inappropriate or unfaithful.

Given the above, the FSA shall pay attention to the following points regarding the principle of suitability pertaining to financial service intermediaries' intermediation of the conclusion of specified financial service

contracts (excluding specified insurance contracts (Article 300-2 of the Insurance Business Act); the same applies to III-2-6). While methods for intermediating the conclusion of specified financial service contracts include the solicitation of customers visiting sales offices, the solicitation of customers through telephone or the internet and others, the FSA shall pay attention to the need for considering appropriate solicitation methods meeting customers' characteristics.

(1) Major supervisory viewpoints

(i) Proper understanding of financial service details

Whether the financial service intermediary has fully analyzed and identified the risks, returns, costs and other details of financial services for its intermediation that are necessary for customers to conclude specific financial service contracts. Whether the financial service intermediary has developed arrangements for its officers and employees undertaking the intermediation of the conclusion of specified financial service contracts to accurately understand such information for appropriate explanation to customers through cooperation with financial service developers, training and the compilation of documents for explanation to customers according to the characteristics of the financial services for intermediation.

(ii) Accurate understanding of customers' attributes and transactions, and thorough customer information management

The FSA shall pay attention to the following points regarding whether financial service intermediaries have taken appropriate measures in line with their respective business characteristics and business models to understand customers' objectives for the conclusion of specified financial service contracts, their attributes, such as transactions experiences, and their transactions in a timely, appropriate manner:

(A) Whether the financial service intermediary has gathered the following information from customers when intermediating the conclusion of specified financial service contracts. Whether the financial service intermediary has appropriately managed customer information by taking such measures as the confirmation of changes in the information (excluding a) for the revision of registered information when intermediating the conclusion of new specified financial service contracts for existing customers.

a. Date of birth (only for natural person customers)

b. Occupation (only for natural person customers)

c. Property status including assets and income

d. Whether the customer in the past concluded specified deposit, etc. contracts (meaning "deposit, etc." prescribed in Article 52-44(2) of the Banking Act), specified insurance contracts (meaning "specified insurance contract" prescribed in Article 300-2 of the Insurance Business Act) or financial instruments transaction contracts (meaning "financial instruments transaction contract" prescribed in Article 34 of the Financial Instruments and Exchange Act), whether the customer in the past purchased any other investment financial instruments, and their types.

- e. Motives, objectives and other customer needs regarding the conclusion of specified financial service contracts
- (B) Whether the financial service intermediary has conducted appropriate solicitation in accordance with the above information gathered from customers or failed to fully protect the customers when intermediating the conclusion of specified financial service contracts.
- (C) Whether the financial service intermediary has explained to customers in line with the information in (A) about the details of pre-contract documents prescribed in Article 37-3 of the Financial Instruments and Exchange Act, which is applicable mutatis mutandis to financial service intermediaries, in ways and to extents to lead the customers to understand the details.
- (D) Whether the financial service intermediary has developed the following systems for the handling of the information gathered from customers as prescribed in (A) to retroactively verify the appropriateness of sales and solicitation:
- a. A system to appropriately store the information that the financial service intermediary gathered from customers as prescribed in (A)
 - b. A system for the financial service intermediary to use the above information to retroactively verify the appropriateness of sales and solicitation
- (iii) Consideration and assessment of reasonable grounds at the time of intermediating the conclusion of specified financial service contracts
- (A) Whether the financial service intermediary, before intermediating the conclusion of a specified financial service contract for a customer, considers and assesses if there are reasonable grounds for individual financial services subject to the contract and the frequency and value of transactions with the customer to meet the customers' attributes and objectives for concluding the specified financial service contract.
 - (B) Whether the financial service intermediary fixes methods to choose factors and procedures for the consideration and assessment according to the characteristics of financial services in cooperation with financial service developers.
- (iv) Inadequate or unfaithful intermediation
- Whether the financial service intermediary has conducted the following inadequate or unfaithful acts for intermediating the conclusion of specified financial service contracts.
- (A) A financial service intermediary leads customers to shoulder excessive fees by soliciting them to conduct highly frequent financial instruments transactions failing to meet their attributes or objectives for concluding specified financial service contracts (attention should be paid to factors such as the ratio of fee payments to the average annual investment balance for a customer and any deviation of a customer's transaction frequency from a normal level when a decision is made on whether a transaction frequency is unreasonably high or not).
 - (B) In a bid to solicit a customer to use a financial service failing to meet the objective for concluding a

specified financial service contract, a financial service intermediary requests the customer to change the objective for concluding the specified financial service contract without leading the customer to understand the meaning of or reason for such change.

(C) When multiple financial services are likely to meet a customer's attributes and objective for concluding a specified financial service contract, a financial service intermediary, even without reasonable grounds, intermediates the conclusion of a contract for financial services for which fees are higher.

(v) Verification by the internal control department

Whether the internal control department conducts verification mentioned in (i) to (iv) above and reviews the relevant arrangements based on the verification results or otherwise endeavors to secure the effectiveness thereof.

(vi) A general investor's transition to a professional investor

Whether the financial service intermediary decides whether to accept a customer's offer to shift from a general investor to a professional investor based on Articles 34-3(1) and 34-4(1) of the Financial Instruments and Exchange Act, which is applicable mutatis mutandis to financial service intermediaries, after considering if it is adequate to treat the customer as a professional investor in view of the customer's knowledge, experiences, property status and objective for concluding a specified financial service contract.

(2) Supervisory approaches and actions

Regarding financial service intermediaries' problems pertaining to their arrangements for the principle of suitability identified through daily supervisory operations and accident reports, the FSA shall conduct in-depth interviews and request reports based on Article 35(1) of the Act on the Provision of Financial Services as necessary to check their voluntary business improvements. If financial service intermediaries are identified as having serious problems regarding their securement of sound and appropriate business operations or customer protection, the FSA shall take actions, such as the issuance of a business improvement order based on Article 37 of the Act on the Provision of Financial Services. If serious and malicious legal violations are identified, the FSA shall consider necessary actions, including the issuance of a business suspension order based on Article 38(1) of the Act on the Provision of Financial Services.

III-2-7 Explanation to Customers on Handling of Similar Financial Service Contracts of Multiple Financial Institutions (Related to Article 25(1) of the Act on the Provision of Financial Services and Article 33 of the Cabinet Office Order on Financial Service Intermediaries)

Whether a financial service intermediary that handles similar financial service contracts for multiple financial institutions explains the following four items to customers in advance. Whether the financial service intermediary

does all possible efforts to make such explanation understandable for customers.

- (i) Whether a customer's fee payments to a financial institution (all fee payments by a customer regarding a financial service contract, irrespective of whether they are called consideration, cost, etc.) differ from those to other financial institutions.
- (ii) Whether the financial service intermediary handles financial service contracts similar to the contract that a customer intends to conclude.
- (iii) Details of the similar financial service contracts in (ii) above and other useful information for the customer as requested by the customer
- (iv) The trade name of a financial institution that finally becomes the customer's counterparty to a financial service contract

III-2-8 Cooprtation with Services Provided by Other Business Operators

Financial service intermediary business operations include services that are linked (hereinafter referred to as "linked services") to services provided by other business operators such as banks, insurance companies (meaning "insurance company" as defined in Article 2(2) of the Insurance Business Act, "foreign insurance company" as defined in paragraph (7) of the same Article, "underwriting member" as defined in Article 219(1) of the same Act and "licensed specified corporation" as defined in Article 223(1) of the same Act; the same applies hereinafter) and small amount and short term insurers (meaning "small amount and short term insurer" as defined in Article 2(18) of the Insurance Business Act; the same applies hereinafter) (hereinafter, insurance companies and small amount and short term insurers are collectively called "insurance companies, etc."), financial instruments business operators, registered financial institutions and money lenders.

While such linked services are highly convenient for financial service intermediary users, they have the potential to contain risks that differ from those accompanying services provided only by financial service intermediaries. If a service of a financial service intermediary is linked to a remittance service (exchange transaction), for instance, a financial service intermediary user may pretend to be a depositor for a deposit account for linkage (hereinafter referred to as a "linked account") and conduct illegal transactions. It is conceivable that as technological innovations serve to promote links between business operators, risks accompanying links may heighten.

Given the above, financial service intermediaries that provide linked services must develop control environments according to risks accompanying the linked services in order to protect the interests of the users of financial service intermediaries and their linkage partners (hereinafter referred to as "users, etc." in III-2-8) and conduct sound and appropriate financial service intermediary business operations. When supervising financial intermediaries that provide linked services, therefore, the FSA shall pay attention to the following points:

III-2-8-1 Major Supervisory Viewpoints

(1) Development of internal control environment

- (i) Whether the management team has developed an environment for the internal control department to identify risks, including problems regarding the protection of the interests of users, etc., with respect to linked services at the time of introducing or modifying the linked services and reduce the risks in a timely manner.
- (ii) Whether the internal control department collects and analyzes information on the status and modus operandi of related crime based on the types of crime expected to occur with respect to linked services, considers expected criminal modus operandi and tries to improve security levels pertaining to linked services and measures against organized crime, etc. Whether the department reports the details thereof to the board of directors regularly on a timely basis.
- (iii) Whether the internal audit department audits security levels pertaining to linked services and measures against organized crime, etc. regularly on a timely basis and reports audit results to the board of directors.
- (iv) Whether the management creates an environment in which the so-called PDCA cycle comprising risk analysis, formulation and implementation of risk mitigation measures, and evaluation and review of such mitigation measures functions as described above.

(2) Ensuring security

- (i) Whether the financial service intermediary assesses risks regarding linked services at the time of introducing or modifying linked services in cooperation with linkage partners to prevent illegal transactions.
- (ii) Whether the financial service intermediary has specified how to share roles and responsibilities with linkage partners.
- (iii) Whether the financial service intermediary, based on risk assessment, has taken appropriate and effective measures to prevent illegal transactions according to risks in cooperation with linkage partners.

Whether the financial service intermediary, when linking services, takes appropriate and effective measures to prevent illegal transactions, including the effective identification of users through public personal authentication or any other method.

Whether the financial service intermediary has confirmed that financial institutions providing services linked to those of the financial intermediary have introduced effective multi-factor or any other personal authentication measures, including the combination of fixed ID passwords with variable passwords using hardware or software tokens, and public personal authentication and other electronic certificates.

- (iv) Whether the financial service intermediary identifies and assesses risks regularly on a timely basis and improves measures to prevent illegal transactions, based on environmental changes, such as the sophistication of criminal methods, as well as the status of incidents at the intermediary and other business operators.
- (v) Whether the financial service intermediary, when finding problems regarding the protection of users'

interests and the sound and appropriate implementation of financial service intermediary business operations as a result of risk assessment, takes appropriate measures, such as the total or partial suspension of services, including linked services, over periods before the resolution of the problems.

(3) Notification to users, etc.

Whether the financial service intermediary, in order to enable users, etc. to recognize damage at an early stage, has taken measures for users, etc. to confirm the fact and details of the linkage in a timely manner, including cooperation with linkage partners in notifying the contact information of users, etc. registered with the linkage partners in advance.

When the above measures are taken through the above notification, it should be noted that the financial service intermediary must have a robust authentication method for the contact information.

(4) Detection of illegal transactions

Whether the financial service intermediary has developed arrangements to implement the following measures in cooperation with linkage partners to prevent illegal transactions regarding linked services:

- To quickly detect suspicious transactions by setting appropriate scenarios and thresholds based on environmental changes, including the elaboration and sophistication of criminal methods, and on the status of incidents at the financial service intermediary and other business operators.
- To share information on a timely basis with linkage partners on transactions detected based on the above to implement the temporary suspension of relevant services and other measures as necessary and conduct investigations.
- To promptly contact those who are likely to be affected.
- To suspend IDs that have been found to be fraudulent.

(5) Responding to inquiries from users, etc.

(i) Whether the financial service intermediary has developed arrangements to accumulate and analyze inquiries from users, etc. on linked services (hereinafter referred to as “inquiries, etc.”) for the early detection and improvement of risks.

(ii) Whether the financial service intermediary has developed arrangements to faithfully respond to inquiries, etc. about linkage partners and clarified specific methods for cooperation and responsibilities with the partners.

(iii) Whether the financial service intermediary verifies whether it and its linkage partners inappropriately encourage users to consult with each other. Whether the financial service intermediary, when detecting inappropriate encouragement, cooperates with linkage partners in clarifying the cause of the inappropriate encouragement and taking accurate measures to improve practices and prevent the inappropriate encouragement.

III-2-8-2 Supervisory Approaches and Actions

Regarding financial service intermediaries' problems pertaining to their provision of linked services identified through daily supervisory operations and accident reports, the FSA shall conduct in-depth interviews and request reports based on Article 35(1) of the Act on the Provision of Financial Services as necessary to check their voluntary business improvements. If financial service intermediaries are identified as having serious problems regarding their securement of sound and appropriate business operations or customer protection, the FSA shall take actions, such as the issuance of a business improvement order based on Article 37 of the Act on the Provision of Financial Services. If serious and malicious legal violations are identified, the FSA shall consider necessary actions, including the issuance of a business suspension order based on Article 38(1) of the Act on the Provision of Financial Services.

III-2-9 Dealing with Complaints (including Financial ADR System)

(1) Need for dealing with inquiries, complaints, disputes, etc. (hereinafter, "complaints")

Many financial products and services have inherent risks, and coupled with being specialized and invisible in nature, it is considered that there is a strong possibility of their leading to problems. Therefore, with regard to the sale and provision of financial products and services, in addition to providing information and adequately implementing other advanced measures from the viewpoint of preventing problems and protecting customers, handling complaints after the fact is also important.

As the diversification of financial instruments and services has led to the greater likelihood of problems in recent years, addressing complaints, etc. retroactively has become even more important for protecting customers and securing their confidence.

Based on these perspectives, a financial ADR system has been introduced as a framework for simply and expeditiously processing complaints and resolving disputes about financial instruments and services (see Note for ADR). Therefore, financial service intermediaries are required to appropriately address complaints, etc. while considering the financial ADR system.

(Note) ADR (Alternative Dispute Resolution)

An alternative method to litigation for resolving disputes which is based on agreement by the parties, such as mediation or arbitration. ADR is expected to result in prompt, simple, and flexible dispute resolution in a manner suited to the nature of the case, the circumstances of the parties, and so on.

(2) Scope

There are various forms of expression that can be made regarding the business operations of a financial service intermediary. Besides inquiries, there are also expressions of dissatisfaction made by customers, such as complaints and disputes. It is important for financial service intermediaries to deal with these various forms of

expression appropriately, and so they are required to develop appropriate internal control environments that enable such treatment.

In addition, financial service intermediaries are also required to develop appropriate control environments for complaints and disputes in the financial ADR system.

However, it must be added that the distinction between these complaints and disputes is relative and they are connected with each other. In particular, in light of the requirement in the financial ADR system for designated ADR bodies to ensure links between complaint processing procedures and dispute resolution procedures, rather than dealing with individual cases by formally dividing applications made by customers into “complaints” and “disputes,” it is important that financial service intermediaries deal with complaints and disputes appropriately while taking into consideration their relativity and connections.

III-2-9-1 Establishment of Internal Control Environment for Handling Complaints, etc.

(1) Purpose and Significance

Handling complaints, etc. in a prompt, fair, and appropriate manner is an important activity that carries the connotation of complementing the accountability to customers after the fact, and is important for ensuring the confidence of customers in financial products and services. Financial service intermediaries need to develop internal control environments to handle and deal with complaints, etc. made by customers in a prompt, fair, and appropriate manner, including measures and responses required in the financial ADR system.

(2) Major supervisory viewpoints

The FSA will examine whether the financial service intermediary has, in developing an internal control environment for handling complaints, etc., developed an appropriate and effective control environment in light of the size and specific characteristics of its business operations. For this, the FSA will take the following points, among others, into consideration, while being mindful of avoiding their application in a mechanical and uniform fashion.

(i) Role of management

Whether the board of directors has exercised its functions properly with regard to the establishment of the firm-wide internal control environment for the function of handling complaints, etc.

(ii) Internal regulations, etc.

(A) Whether the division in charge of complaints, etc., its responsibility and authority, and the procedures for handling complaints, etc. (including response in case where an administrative error occurs) have been established in the internal regulations so that complaints can be responded to and dealt with in a prompt, fair, and appropriate manner. Also, whether procedures concerning business improvement have been

established so that the views of customers are reflected in the conduct of business operations.

(B) Whether the financial service intermediary has developed a control environment to disseminate internal regulations, etc. to its employees by means of training and other measures (including the distribution of manuals and so forth) so that business operations for handling complaints, etc. can be conducted based on those internal regulations.

Particularly in cases where complaints, etc. are being made frequently by customers, whether the financial service intermediary first confirms how internal regulations, etc. (not only those for handling complaints, etc.) are publicized and enforced at branches. And then, whether the financial service intermediary examines the causes and problem areas in terms of control environments.

(iii) Control environment for handling complaints, etc.

(A) Whether the financial service intermediary has appropriately appointed staff in charge of handling complaints, etc.

(B) Whether the financial service intermediary has developed a control environment wherein relevant departments cooperate and promptly deal with any complaints, etc. made by customers. In particular, whether the financial service intermediary has developed a control environment wherein the responsible division or person in charge of handling complaints, etc. strives to fully understand the customer complaints, etc. faced by each individual employee, and reports promptly to the relevant departments.

(C) Whether the financial service intermediary has developed a control environment wherein it promptly settles any outstanding cases and prevents the occurrence of any long-term outstanding cases by conducting progress management aimed at the resolution of complaints, etc. properly.

(D) Whether the financial service intermediary has developed a control environment wherein it can receive complaints extensively, such as by improving the response provided at contact points according to the occurrence of complaints, etc., and, by setting access hours and means of access (e.g. telephone, postal mail, facsimile, and email) that are considerate of customer convenience. Also, whether the financial service intermediary has developed a control environment wherein it extensively publicizes these contact points and ways of making applications, etc. and wherein it makes them well known to customers in an easy-to-understand manner taking into account their diversity.

(E) Whether the financial service intermediary has developed a control environment for, when handling complaints, etc., ensuring the proper handling of personal information in accordance with the Act on the Protection of Personal Information, the Personal Information Protection Guidelines, the Financial Sector Personal Information Protection Guidelines, and the Practical Guidelines (See III-2-2).

(F) With regard to complaints concerning outsourced business operations conducted by an external contractor, whether the financial service intermediary has developed a control environment for handling such complaints, etc. promptly and appropriately, such as by establishing a system of direct communication to the financial service intermediary itself (see III-2-12(2)).

(G) Whether the financial service intermediary has developed arrangements to take appropriate actions in addressing complaints, etc. in consideration of their relations with a prohibition on compensation of loss (Article 39 of the Financial Instruments and Exchange Act applied mutatis mutandis to financial service intermediaries).

(H) Whether the financial service intermediary has developed a control environment wherein it can communicate quickly with relevant divisions and cooperate with the police and other relevant organizations, where necessary, in order to distinguish any pressure by anti-social forces disguised as complaints, etc. from ordinary complaints, etc. and to take a resolute stance against them (see III-2-1-4).

(iv) Dealing with customers

(A) Whether the financial service intermediary goes beyond perceiving the handling of complaints as a simple problem of processing procedures, and instead regards it as a question of a control environment for providing after the fact explanations and aim to resolve a complaint with the understanding and agreement of the customer wherever possible, while suitably interviewing customers on the circumstances according to the nature of the complaint, etc.

(B) Whether the has financial service intermediary has developed a control environment wherein it provides customers who have made a complaint, etc. with appropriate explanations, as according to the progress of the procedures for handling complaints, etc. while also being considerate of the specific characteristics of the customer, from the time the complaint is made to after its settlement (for example, an explanation of the procedures for handling complaints, notification to the effect that the complaint, etc. has been received, an explanation on the progress, an explanation of the results, etc.).

(C) With regard to complaints, etc. made by customers, whether the financial service intermediary has developed a control environment wherein, rather than only handling a complaint, etc. itself, it refers customers to appropriate external organizations according to the nature of the complaint and the wishes of the customer, and provides information such as an overview of the standard procedures.

In cases where there is more than one means of processing a complaint or resolving a dispute, customers should be able to make a choice freely, and therefore, in referring customers to external organizations, care should be taken so that a customer's choice is not unduly restricted.

(D) Whether the financial service intermediary has developed a control environment wherein, even during a period when proceedings for handling a complaint, etc. are pending at an external organization, the financial service intermediary takes appropriate actions where necessary with respect to the customer who is the other party to said proceedings (ordinarily handling customers, such as providing them with general materials or explanations).

(v) Information sharing, business improvements, etc.

(A) Whether the financial service intermediary has developed a control environment wherein complaints, etc. and the associated results from handling them are categorized and reported to its internal control

division and sales division, and wherein information necessary for the particular case is shared between those concerned, such as reporting important cases to the audit division and management.

- (B) Whether the financial service intermediary properly and accurately records and stores information on the contents of complaints, etc. and the results of dealing with them, including both complaints, etc. it deals with itself, and those dealt with through the mediation of an external organization. Also, whether the financial service intermediary has developed a control environment wherein it analyzes the contents of complaints, etc., and the results of handling them, taking into consideration information, etc., provided by a designated ADR body, and applies this on an ongoing basis to the improvement of control environments for dealing with customers and conducting administrative processes and to the formulation of measures for preventing any occurrence or recurrence of complaints, etc.
 - (C) Whether the financial service intermediary has developed a control environment to check complaints, etc. on products sold and transactions made after the formulation of measures for improving solicitation arrangements and administrative processes and preventing the recurrence of complaints, and confirms the effects of these measures.
 - (D) Whether the financial service intermediary has developed a control environment wherein the audit functions and other internal checks and balances functions can work properly to ensure the effectiveness in handling complaints, etc.
 - (E) Whether the financial service intermediary has developed a control environment wherein, when reflecting the treatment of complaints, etc. in the conduct of business operations, the management supervises any decisions to implement measures for business improvement or recurrence prevention, as well as any examination or ongoing review of how the control environment for handling complaints, etc. should be.
- (vi) Relationship with external organizations, etc.
- (A) Whether the financial service intermediary has developed a control environment wherein it cooperates appropriately with external organizations, etc. in working toward the prompt resolution of any complaints, etc.
 - (B) Whether the financial service intermediary has developed a control environment wherein, when filing a petition for dispute resolution procedures with external organizations, etc. by itself, rather than simply filing a petition without fully exhausting its own procedures, it first responds sufficiently to the submission of the complaint from the customer and goes through an appropriate internal deliberation on the need for the petition.

III-2-9-2 Response to the Financial ADR System

III-2-9-2-1 In Cases Where There is a Designated ADR Body

(1) Purpose and significance

In order to enhance customer protection and improve customer confidence in financial products and services, it is important to ensure substantial equality between financial service intermediaries and customers, and to resolve customers' complaints, etc. in a neutral, fair, and effective manner. Therefore, in the financial ADR system, complaint processing and dispute resolution from a third-person perspective are conducted by designated ADR bodies with the participation of experts and others.

Under the financial ADR system, responses to complaint processing and dispute resolution are primarily regulated according to basic contracts for the implementation of dispute resolution procedures (Article 11(14) of the Act on the Provision of Financial Services) concluded between financial service intermediaries and designated ADR bodies.

Financial service intermediaries are required to appropriately address their obligations, etc. set forth in their basic contracts for the implementation of dispute resolution procedures, while bearing in mind the objective of processing complaints or resolving disputes at designated ADR bodies.

(2) Major supervisory viewpoints

The FSA will inspect whether the financial service intermediary has developed an appropriate and effective control environment for responding to the financial ADR system in light of the size and specific characteristics of its business operations. For this, the FSA should take into consideration the following points, among others, while being mindful of avoiding their application in a mechanical and uniform fashion.

See also the points to note in "III-2-9-1 Establishment of Internal Control Environment for Handling Complaints, etc."

(i) Outline

(A) Basic contract for the implementation of dispute resolution procedures

- a. Whether the financial service intermediary promptly concludes a basic contract for implementation of dispute resolution procedures with an ADR body designated for each category of dispute resolution services (meaning the category of dispute resolution services as prescribed in Article 11(13) of the Act on the Provision of Financial Services).
- b. For example, even in cases where there is any change, such as a designated ADR body having its designation rescinded or a new ADR body being designated, whether the financial service intermediary selects the best measure from the perspective of customer convenience and promptly implements any necessary measures (such as implementing new complaint processing measures or dispute resolution measures, or concluding a basic contract for the implementation of dispute resolution procedures). Also,

whether the financial service intermediary takes appropriate action, such as making the change known to all customers.

- c. Whether the financial service intermediary has developed a control environment to faithfully perform the basic contract for the implementation of dispute resolution procedures concluded with a designated ADR body.

(B) Publication, dissemination, and response to customers

- a. Whether the financial service intermediary has properly publicized the name or trade name and the contact address of a designated ADR body with which the financial service intermediary has concluded a basic contract for the implementation of dispute resolution procedures.

With regard to methods of publication, the financial service intermediary need to take measures suitable to the size and specific characteristics of its business operations, for example, presenting information on its website, putting up posters at its branches, producing and distributing pamphlets, and conducting publicity activities through the mass media. Even supposing that the financial service intermediary has posted information on its website, if it is assumed that there are customers who cannot view this information, the financial service intermediary must give consideration to these kinds of customers.

In publicizing such information, whether the financial service intermediary presents it in a manner that is easy for customers to understand. (For example, in the case of publicizing information on a website, the page should be so designed that customers can easily access the page that provides information on the use of the financial ADR system.)

- b. Whether the financial service intermediary explains about the financial ADR system with respect to the delivery of pre-contract documents

Whether the financial service intermediary makes faithful responses to customers' complaints and explains about the financial ADR system anew if it fails to gain an understanding from customers through its talks with them or if it is difficult to fix damages through such talks.

- c. Whether the financial service intermediary has developed a control environment wherein it disseminates any necessary information to customers, such as the flow of standard procedures by the designated ADR body and the effects of using a designated ADR body (such as the effect of prevention of prescription), in light of the basic contract for the implementation of dispute resolution procedures.
- d. In cases where the financial service intermediary intermediates the conclusion of a financial service contract, as multiple operators with varied forms of operation are involved, including financial institutions that arrange and sell said financial services and the financial service intermediary that intermediated said financial service contract, whether the financial service intermediary responds to customers in a careful manner, such as referring them to appropriate ADR bodies depending on the causes of the problems, while ascertaining what the customers see as the problem.

(ii) Points of attention regarding complaint processing procedures and dispute resolution procedures

In light of the fact that, under basic contracts for the implementation of dispute resolution procedures, financial service intermediaries assume various obligations, including those to comply with procedures, submit materials, and respect special conciliation proposals, the FSA should take the following points, among others, into consideration when conducting examinations.

(A) Common items

- a. Whether the financial service intermediary has developed a control environment wherein, in cases where it receives a request from a designated ADR body for compliance with procedures, submission of materials, or the like, it responds to the request promptly, unless there is a justifiable reason not to do so.
- b. Whether the financial service intermediary has developed a control environment wherein, in cases where it refuses a request from a designated ADR body to comply with procedures, submit materials, or the like, rather than the division that caused the complaint or dispute simply deciding by itself to refuse the request, the financial service intermediary conducts a proper examination as an organization with respect to such decision of refusal. Also, whether the financial service intermediary has developed a control environment wherein, wherever possible, it explains the reasons (justifiable reasons) for that decision.

(B) Response to dispute resolution procedures

- a. Whether the financial service intermediary has developed a control environment wherein, in cases where it is presented with a recommendation to accept a reconciliation plan or with a special conciliation proposal from a dispute resolution committee member, it makes prompt decisions on whether or not to accept it.
- b. Whether the financial service intermediary has developed a control environment wherein, in cases where it has accepted a reconciliation plan or a special conciliation proposal, the division in charge takes prompt action, and the audit division conducts a follow-up examination on matters including the progress of its fulfillment.
- c. Whether the financial service intermediary has developed a control environment wherein, in cases where it rejects acceptance of a reconciliation plan or a special conciliation proposal, it promptly explains its reasoning and takes necessary action, such as instituting legal proceedings, in light of the operational rules of the designated ADR body (meaning the operational rules as defined in Article 51(1)(vii) of the Act on the Provision of Financial Services).

III-2-9-2-2 In Cases Where There is No Designated ADR Body

(1) Purpose and Significance

In the financial ADR system, even in cases where there is no designated ADR body, there is a legal requirement for financial service intermediaries to instead implement complaint processing measures and dispute resolution measures. Financial service intermediaries are required to ensure proper customer protection and to strive to improve customer confidence in financial products and services by implementing these measures properly and by resolving any complaints or disputes regarding financial products and services in a simple and expeditious manner.

(2) Major Supervisory Viewpoints

The FSA will examine whether the financial service intermediary has developed a control environment in light of the scale and specific nature of its business operations, wherein, in cases where it implements complaint processing measures and dispute resolution measures, it deals properly with any complaints or disputes made by customers while bearing in mind the objectives of the financial ADR system. For conducting examination, the FSA should take into consideration the following points, among others, while being mindful of avoiding their application in a mechanical and uniform fashion.

See also the points to note in “III-2-9-1 Establishment of Internal Control Environment for Handling Complaints.”

(i) Outline

(A) Selection of complaint processing measures and dispute resolution measures

a. Whether the financial service intermediary selects one or more of the following statutory actions as complaint processing and dispute resolution measures for each of the licensed business operation types (deposit, etc. intermediary business operations, insurance intermediary business operations, securities, etc. intermediary business operations or loan intermediary business operations) in consideration of business operations, the status of complaints and business areas. In this case, it is desirable that the financial service intermediary has measures in place that would enhance convenience for customers in making complaints or disputes, such as providing an environment that makes it easier for customers to access relevant services in terms of geography.

(a) Selection of complaint processing measures

- i) Lead experienced consumer counselors, etc. to provide advice and guidance to employees engaging in complaint processing.
- ii) Develop and publish business management systems and internal rules.
- iii) Use the certified Financial Service Intermediary Business Association.

- iv) Use the Financial Instruments Firms Association, the Certified Investor Protection Organization (for financial service intermediary business operations other than loan intermediary business operations) or the Japan Financial Service Association (for loan intermediary business operations).
 - v) Use the National Consumers Affairs Center of Japan and consumer centers.
 - vi) Use ADR bodies for other business types.
 - vii) Use a corporation that can fairly and accurately implement complaint processing.
- (b) Dispute resolution measures
- i) Use certified dispute resolution procedures as prescribed in the Act on Promotion of Use of Alternative Dispute Resolution.
 - ii) Use the Financial Instruments Firms Association, the Certified Investor Protection Organization (for financial service intermediary business operations other than loan intermediary business operations) or the Japan Financial Service Association (for loan intermediary business operations).
 - iii) Use a bar association.
 - iv) Use the National Consumers Affairs Center of Japan and consumer centers.
 - v) Use ADR bodies for other business types.
 - vi) Use a corporation that can fairly and accurately implement complaint processing.
- b. Whether the financial service intermediary has developed a control environment wherein it continuously monitors the processing status of complaints and disputes, and where necessary, reviews and revises its complaint processing measures and dispute resolution measures.
- c. In cases where the financial service intermediary utilizes a corporation that can conduct complaint processing services or dispute resolution services in a fair and appropriate manner ((a) vii), (b) vi)), whether the financial service intermediary evaluates whether such corporation has a financial basis and personnel structure that are sufficient to fairly and appropriately carry out operations pertaining to the handling of complaints related to its services (Article 47(1)(vi) and (2)(v) of the Cabinet Office Order on Financial Service Intermediaries), in a reasonable manner based on considerable materials and other factors.
- d. In cases where the financial service intermediary utilizes an external organization, although it is not necessarily required to enter an outsourcing contract with such external organization, it is desirable to determine necessary matters with the external organization in advance, such as the flow of standard procedures and the terms and conditions regarding the burden of expenses.
- e. In cases where expenses are incurred by utilizing the procedures of an external organization, whether the financial service intermediary has taken measures that would prevent such expenses from becoming an impediment to the filing of a petition for complaint processing or dispute resolution, such as taking measures likely to prevent the customer's burden of expenses from becoming excessive.

B. Operation

The FSA will examine whether the financial service intermediary operates measures inappropriately, such as unduly restricting the scope of the complaint processing measures and dispute resolution measures. It should also be kept in mind whether the financial service intermediary has maintained appropriate coordination between complaint processing measures and dispute resolution measures (refer to III-2-9(2)).

(ii) Points of attention regarding complaint processing measures (cases where financial service intermediaries develop their own control environments)

(A) Cases where a control environment is developed wherein consumer counselors, etc. give guidance and advice to employees

- a. Whether the financial service intermediary has developed a control environment wherein it improves the skills of its employees engaged in processing complaints, such as periodically conducting a training run by consumer counselors and the like.
- b. Whether the financial service intermediary has developed a control environment wherein it utilizes the specialized knowledge and experience of consumer counselors and the like, where necessary, for processing individual cases, such as building a network with consumer counselors and the like.

(B) Cases where a financial service intermediary develops its own operational system and internal rules

- a. Whether the financial service intermediary has properly developed an operational system and internal rules on the basis of the status of occurrence of complaints, and whether it has developed a control environment wherein it processes complaints in a fair and appropriate manner based on said system and rules.
- b. Whether the financial service intermediary has made customers aware of the contact point for making complaints in an appropriate manner, and whether it has properly published the operational system and internal rules pertaining to complaint processing.

In terms of the content of the dissemination and publications, although the full text of the internal rules is not necessarily published, in order for customers to confirm for themselves whether complaints are being processed in accordance with appropriate procedures, as it is important that the contact information for inquiry about the processing complaints and the flow of standard operations are clearly indicated, it should be kept in mind whether this information is covered in its publication.

For the methods of publicity and publication, refer to III-2-9-2-1(2)(i)(B).

(iii) Points of attention regarding complaint processing measures (when using external organizations) and dispute resolution measures

(A) Dissemination and publication

- a. In cases where the financial service intermediary is using an external organization, from the perspective of customer protection, it is desirable that the financial service intermediary disseminates and publishes information regarding the external organization, including, for example, the availability of using the

external organization when making complaints or disputes, the name and contact information of the external organization, and the instructions on how to use it, in an easy-to-understand manner for customers.

- b. Whether the financial service intermediary explains about the financial ADR system with respect to the delivery of pre-contract documents.

Whether the financial service intermediary makes faithful responses to customers' complaints and explains about the financial ADR system anew if it fails to gain understanding from customers through its talks with them or if it is difficult to fix damage through such talks.

- c. Whether the financial service intermediary has developed a control environment for referring customers to other external organizations, when the petition for complaint processing or dispute resolution is out of the scope handled by the external organization to which the customer was firstly referred to by the financial service intermediary due to geographical reasons, the nature of the complaint or dispute, or for any other reason, or when the handling of the complaint or dispute by another external organization is appropriate (not limited to external organizations used by the financial service intermediary as complaint processing measures or dispute resolution measures).

- d. Whether the financial service intermediary deals with customers in a careful manner by understanding their problem awareness and referring them to external organizations that are appropriate for the causes of the problems, considering that multiple business operators with various forms of operations, such as a financial institution that arranges and sells financial services and a financial service intermediary that intermediates contracts on the financial services, are involved in financial service intermediary business.

(B) Response to procedures

- a. In cases where the financial service intermediary receives a request from an external organization for its acceptance of complaint processing or dispute resolution procedures, an investigation of the facts or the submission of relevant materials or the like, whether the financial service intermediary has developed a control environment wherein it responds to the request promptly in accordance with the rules, etc. of the external organization.

- b. In cases where the financial service intermediary refuses a request for its acceptance of complaint processing or dispute resolution procedures, an investigation of the facts, or the submission of relevant materials or the like, whether the financial service intermediary has developed a control environment wherein it makes a proper decision as an organization with respect to the content of complaints and disputes, the nature of the facts or materials and the rules of external organizations, etc., rather than refusal by the section that caused the complaints or disputes without careful consideration. Also, whether the financial service intermediary has developed a control environment wherein it explains the reasons of the refusal wherever possible on the basis of the rules, etc. of the external organization.

- c. In cases where a proposed solution, such as a reconciliation plan or mediation plan is presented from an external organization that has commenced dispute resolution procedures (hereinafter referred to as

a “proposed solution”), whether the financial service intermediary has developed a control environment wherein it makes prompt decisions on whether or not to accept the proposed solution on the basis of the rules, etc. of the external organization.

- d. In cases where the financial service intermediary has accepted a proposed solution, whether the financial service intermediary has developed a control environment wherein the section in charge takes prompt action, and also the audit section conducts an ex-post review on the status of the progress of its fulfillment, etc.
- e. In cases where the financial service intermediary rejects acceptance of a proposed solution, whether the financial service intermediary has developed a control environment wherein it promptly explains its reasoning and takes necessary action on the basis of the rules, etc. of the external organization.

III-2-9-3 Statements in Various Documents

Financial service intermediaries are required to state the details of their response to the financial ADR system in various documents (such as pre-contract documents). In cases where there is no designated ADR body, financial service intermediaries are required to state the details of their complaint processing measures and dispute resolution measures in these documents. In addition to this, it should be kept in mind that financial service intermediaries need to include relevant information in the context of their actual situation such as, if, for example, a financial service intermediary utilizes an external organization, the name and contact information thereof, etc. (in cases where part of the services pertaining to the complaint processing or dispute resolution are entrusted to another organization, then including such other organization).

III-2-9-4 Administrative Response

Regarding financial service intermediaries’ problems pertaining to arrangements for handling complaints, etc. identified through daily supervisory operations, etc., the FSA shall conduct in-depth interviews and request reports based on Article 35(1) of the Act on the Provision of Financial Services as necessary to check their voluntary business improvements. If financial service intermediaries are identified as having serious problems regarding their securement of sound and appropriate business operations or customer protection, the FSA shall take actions, such as the issuance of a business improvement order based on Article 37 of the Act on the Provision of Financial Services. If serious and malicious violations of laws and regulations, etc. are identified, the FSA shall consider necessary actions, including the issuance of a business suspension order based on Article 38(1) of the Act on the Provision of Financial Services.

In cases where the financial service intermediary refuses to comply with procedures as requested by a designated ADR body, the FSA shall watch the financial service intermediary’s actions while considering that the refusal primarily amounts to the financial service intermediary’s failure to perform its basic contract with the designated ADR body for the implementation of dispute resolution procedures.

It should also be kept in mind that an individual dispute that arises between a customer and a financial service intermediary is, in general, a problem pertaining to a private-law contract, and as such, is basically a matter to be resolved between the parties via ADR or other judicial or legal proceedings.

III-2-10 Outsourcing

Given that financial service intermediaries are finally responsible for the business operations they outsource, the FSA shall pay attention to the following viewpoints according to their business profiles in order to secure their customer protection and sound business operations. As the following are general viewpoints, the FSA shall note that additional viewpoints may be required for verification depending on the details of outsourced operations.

(1) Major Supervisory Viewpoints

- (i) Whether the financial service intermediary has developed internal regulations specifying operations subject to outsourcing, criteria for the selection of outsourcing contractors and responses to materialized outsourcing risks, and implemented internal training, etc. to ensure that its officers and employees appropriately handle outsourcing.
- (ii) Whether the financial service intermediary has developed control environments to fully manage risks pertaining to outsourced operations.
- (iii) Whether the financial service intermediary has taken measures such as the provision of necessary instructions to secure outsourcing contractors' development of their legal compliance frameworks.
- (iv) Whether the financial service intermediary has clarified to customers that the outsourcing of business operations does not cause any change in the contractual rights and obligations involving it and its customers and that the customers continue to have the same rights as if the business operations were conducted by the financial service intermediary.
(Note) Outsourcing includes cases where business operations can be viewed as having been outsourced even in the absence of any outsourcing contracts or those where the outsourced operations are implemented overseas.
- (v) Whether the financial service intermediary has developed a control environment that prevents customers from suffering inconveniences if the financial service intermediary cannot be provided with the services agreed under the outsourcing contract with its outsourced contractor.
- (vi) Whether the outsourcing contractor has developed a control environment for managing information related to customers, etc. including prohibition of use of the information for unauthorized purposes. Whether the outsourced contractor is bound by the confidentiality obligations.
- (vii) Whether the financial service intermediary, regarding the supervision of outsourcing contractors to which the handling of information about individual customers has been outsourced, has taken measures based on Article 10 of the Financial Sector Guidelines and on III of the Practical Guidelines to prevent the leaking,

destruction or loss of the information.

- (viii) With regard to the management of outsourced contractors, whether the financial service intermediary clarifies the responsible division and confirms that outsourced contractors are properly managing information related to customers, etc., such as by monitoring on a periodic or as-needed basis how business operations are being conducted at outsourced contractors.
- (ix) Whether the financial service intermediary has confirmed that outsourced contractors have systems in place to take appropriate actions and to promptly report to the financial service intermediary in the event that information is leaked, lost, or damaged.
- (x) Whether the financial service intermediary restricts the outsourced contractors' right to access the information related to customers, etc. possessed by the financial service intermediary to the extent necessary according to the nature of the outsourced business.

On that basis, whether the financial service intermediary checks whether the officers and employees at outsourced contractors to whom access rights are given have been defined, along with the scope of their access rights.

Furthermore, whether the financial service intermediary confirms that the access rights are being managed thoroughly at outsourced contractors on a periodic or as-needed basis, such as by checking how the access rights are used (including matching authorized persons against actual users) in order to prevent the access rights assigned to certain people from being used by others.

- (xi) In cases where an outsourced contractor entrusts the outsourced business of the financial service intermediary to its subcontractors, whether the financial service intermediary checks whether the outsourced contractor is adequately supervising such subcontractors. Whether the financial service intermediary directly supervises such subcontractors as needed.
- (xii) Whether the financial service intermediary has developed a proper system to deal with customers' complaints such as by providing a direct communication line from customers to the financial service intermediary.

(2) Supervisory Methods and Measures

Regarding financial service intermediaries' problems pertaining to outsourcing control environments identified through daily supervisory operations and accident reports, the FSA shall conduct in-depth interviews with the financial service intermediaries or outsourcing contractors and request reports based on Article 35(1) of the Act on the Provision of Financial Services as necessary to check the financial service intermediaries' voluntary business improvements. If financial service intermediaries are identified as having serious problems regarding their securement of sound and appropriate business operations or customer protection, the FSA shall take actions, such as the issuance of a business improvement order based on Article 37 of the Act on the Provision of Financial Services. If serious and malicious legal violations are identified, the FSA shall consider

necessary actions, including the issuance of a business suspension order based on Article 38(1) of the Act on the Provision of Financial Services.

(Note) The interviews are basically designed for the FSA to understand facts through the financial service intermediaries as outsourcers. Depending on the urgency or significance of an incident, however, the FSA shall consider interviewing outsourcing contractors as necessary.

When interviewing outsourcing contractors, the FSA, as necessary, shall request the financial service intermediaries as outsourcers to participate in such interviews.

III-2-11 Response to Persons with Disabilities

- (1) The Act for Eliminating Discrimination against Persons with Disabilities (Act No.65 of 2013, hereinafter referred to as “the Discrimination Elimination Act”) prohibits business operators from engaging in unfair discriminatory treatment for persons with disabilities and requires business operators to make efforts to give reasonable consideration to these persons.

The “Guidelines concerning Promotion of Elimination of Discrimination on the Basis of Disability in Business Fields under the FSA’s Jurisdiction” (Public Notice No. 3 of 2016, hereinafter referred to as the “Guidelines for Eliminating Discrimination against Persons with Disabilities”) indicate specific relevant measures for financial service intermediaries and other business operators under the FSA’s jurisdiction.

The FSA shall pay attention to whether financial service intermediaries have developed internal control environments to appropriately deal with persons with disabilities in line with the Discrimination Elimination Act and the Guidelines for Eliminating Discrimination against Persons with Disabilities, identify and verify the status of dealing with persons with disabilities and update methods for dealing with them from the viewpoints of customer protection and user convenience.

(2) Supervisory Methods and Measures

Regarding financial service intermediaries’ problems pertaining to dealing with persons with disabilities identified through daily supervisory operations and complaints, etc. from such persons, the FSA shall conduct in-depth interviews with the financial service intermediaries to check their internal control environments. If there are doubts about financial service intermediaries’ development of internal control environments, the FSA shall request reports (including those based on Article 35(1) of the Act on the Provision of Financial Services) as necessary to verify the development. If financial service intermediaries are identified as having problems regarding the development, the FSA shall encourage them to improve relevant practices.

III-2-12 Control Environment for Managing Administrative Risk

(1) Managing administrative risk

“Administrative risk” refers to the risk of financial service intermediaries or their customers incurring losses due to their officers and employees failing to conduct administrative work properly or causing accidents. Given that financial service intermediaries must strive to ensure their reliability by properly developing internal control environments regarding administrative risk and maintaining the soundness and appropriateness of their business operations, the FSA shall pay attention to the following viewpoints:

(i) Major Supervisory Viewpoints

- (A) Whether the financial service intermediary has developed an appropriate control environment for managing administrative risk based on the understanding that such risk is involved in all business operations.
- (B) Whether the financial service intermediary has implemented specific measures to reduce administrative risk based on the recognition of the importance of reducing such risk.
- (C) Whether the financial service intermediary has paved the way for its administrative risk management department to fully perform the check-and-balance function by remaining independent from its marketing and sales department. Whether the financial service intermediary has developed clear rules and regulations regarding administrative work and updates the rules and regulations as necessary.
- (D) Whether the internal audit department of the financial service intermediary conducts its internal audit appropriately to audit the control environment for managing administrative risk. Whether its administrative risk management department takes measures to check administrative management arrangements at the marketing and sales department or branch. Whether its internal audit and administrative risk management departments cooperate in improving administrative work levels at the marketing and sales department or branches as necessary.

(2) Outsourcing administrative work

See III-2-10 in cases where financial service intermediaries outsource administrative work.

(3) Supervisory Methods and Measures

Regarding financial service intermediaries’ problems pertaining to their control environments for managing administrative risk or outsourcing administrative work identified through daily supervisory operations and accident reports, the FSA shall conduct in-depth interviews with the financial service intermediaries or outsourcing contractors and request reports based on Article 35 (1) of the Act on the Provision of Financial Services as necessary to check the financial service intermediaries’ voluntary business improvements. If financial service intermediaries are identified as having serious problems regarding their securement of sound

and appropriate business operations or customer protection, the FSA shall take actions, such as the issuance of a business improvement order based on Article 37 of the Act on the Provision of Financial Services. If serious and malicious legal violations are identified, the FSA shall consider necessary actions, including the issuance of a business suspension order based on Article 38(1) of the Act on the Provision of Financial Services.

III-2-13 Control Environment for Managing IT System Risk

III-2-13-1 Background

(1) Information technology (IT) system risk is the risk that users, financial service intermediaries, and financial institutions will incur losses because of a computer system breakdown due to a programming error, vulnerability or other inadequacies, or because of malfunction, or the risk that users, financial service intermediaries, and financial institutions will incur losses because of inappropriate or illegal use of computer systems. Financial service intermediaries are required to address various challenges related to IT systems in a clear-cut way, mainly due to expanded provision of new products and services. If financial service intermediaries were to have system failures and cybersecurity incidents (hereinafter referred to as “system failures”), there might be problems that would not only impair availability in users’ socioeconomic life and the economic activities of companies but also that would have serious effects on the protection of users. Therefore, it is important for financial service intermediaries to enhance and reinforce the control environment for managing IT system risk.

(2) However, even if a financial service intermediary does not literally comply with what is written in the following viewpoints, with due consideration for the scale and business nature of the financial service intermediary, or in cases where only the system of the financial service intermediary stops, users can achieve their purposes if they use the financial institution’s system directly, without passing through the system of the financial service intermediary. In light of this, it is not necessary to require the financial service intermediary to improve its system immediately, if no significant problems have been found from the standpoint of user protection.

(Note) “Cybersecurity incidents” refer to instances of cybersecurity being threatened by so-called “cyberattacks” including unauthorized intrusion, theft, modification and destruction of data, failure or malfunction of information systems, execution of illegal computer programs and DDoS attacks, committed via the internet through malicious use of information communication networks and information systems.

III-2-13-2 Major Supervisory Viewpoints

In verifying the control environment for managing IT system risk, the FSA shall pay attention to the following points according to the size and business operation characteristics of the financial service intermediary.

(1) Recognition of IT system risk

- (i) Whether the management team has recognized IT system risk fully and formulated organization-wide basic policies for managing IT system risk.
- (ii) Whether the management team has recognized the forestalling of IT system failures, etc., the prevention of IT system failure damage expansion and the rapid recovery from such failures as important challenges for business management
- (iii) Whether the management team has fully recognized the importance of IT system risk and appointed a person with sufficient knowledge on and experiences with IT systems as an officer in charge of IT systems.
- (iv) Whether the management team has stipulated their specific responsibilities to assume and their specific responses to take in case of a crisis in which a system failure occurs.

Whether the management team conducts drills giving directions itself to secure the effectiveness thereof.

(2) Establishing a control environment for managing IT system risk

- (i) Whether the financial service intermediary has stipulated basic policies for managing IT system risk and developed a control environment for managing IT system risk.

Whether the financial service intermediary has established a basic policy for managing IT system risk, and whether the basic policy for managing IT system risk contains the security policy (a basic policy for proper protection of information assets of an organization) and the outsourcing policy.

- (ii) Whether the financial service intermediary uses objective benchmarks as a basis for the development and revision of its control environment for managing IT system risk, including evaluations and the standards shown by a third party concerning the contents of such development and revision. Also, whether the financial service intermediary revises, on a continual basis, its control environment for managing IT system risk according to identification and analysis of system failures, results of implementation of risk management, progress of technology, etc.

- (iii) When system failures that may significantly affect business operations occur, whether the financial service intermediary makes it a rule to report the failures swiftly to the persons responsible for the business operations.

In addition, whether it is prepared to launch a task force and consider developing a system to seek resolution of the issue in a swift manner, as necessary.

(3) Identifying, analyzing and assessing IT system risk

Whether the division in charge of managing IT system risk has identified, analyzed and assessed IT system risk periodically and in a timely manner (to meet the provision of new services (including but not limited to large-scale sales campaigns accompanied by no IT system change)), based on the complication and expansion of impacts of IT system failures through large-scale transactions as a result of diversified services and network

expansion.

Whether the division has taken sufficient measures to respond to the risk.

(4) Management of information security

(i) Whether the financial service intermediary has developed a policy, prepared organizational readiness, introduced in-house rules, and developed an internal control environment in order to appropriately manage information assets, and whether it regularly revises these policies, rules, and control environment. Also, whether it makes continuous efforts to improve its information security control environment through the PDCA cycle, taking notice of illegal cases at other companies.

(ii) Whether the financial service intermediary manages information security by designating individuals responsible for business execution related to safety management of information assets and clarifying their roles/responsibilities in efforts to maintain the confidentiality, integrity and availability of information. Also, whether the individuals are responsible for the business execution tasked to handle the security of IT systems, data, and network management.

(iii) Whether the financial service intermediary takes measures to prevent unauthorized use of computer systems, unauthorized access, and intrusion by malicious computer programs such as computer viruses.

(iv) Whether the financial service intermediary identifies, in a comprehensive manner, the important user information that the financial service intermediary should be responsible for, keeps its records, and manages them. In identifying important user information, whether the financial service intermediary considers setting business operations, IT systems, outsourcing contactors, and subcontractors for the financial service intermediary as the scope of protection when necessary.

- Data stored in system areas that are not used for usual operations
- Failure analysis data outputted from the IT system for analyzing failures

(v) Whether the financial service intermediary assesses the importance and risks regarding important user information that has been identified.

Also, whether it has developed rules to manage information, such as those listed below, in accordance with the importance and risks of each type of information.

- Rules to encrypt or mask information;
- Rules for utilizing information; and
- Rules on handling data storage media, etc.

(vi) Whether the financial service intermediary has introduced measures to discourage or prevent unauthorized access, unauthorized retrieval, data leakage, etc. such as those listed below, for the important user information that has been identified.

- Provision of access rights only to employees who need to access according to their authority;
- Storage and monitoring of access logs; and

- Introduction of mutual checking functions such as by separating the individuals in charge of development and those responsible for operations, or system administrators and system users, etc.
- (vii) Whether the financial service intermediary has introduced rules for controlling confidential information, such as encryption and masking. Also, whether it has introduced rules regarding the management of encryption programs, encryption keys, and design specifications for encryption programs. Moreover, whether it has set rules to manage information in accordance with the importance of information.
- Note that “confidential information” refers to any information, such as passwords, tokens, etc., which may cause damage or loss to users if it is disclosed or stolen.
- (viii) Whether the financial service intermediary gives due consideration to the necessity of holding/disposing of, restricting access to, and taking outside, confidential information, and treats such information in a strict manner.
- (ix) Whether the financial service intermediary periodically monitors its information assets to see whether they are managed properly according to management rules, etc. and reviews the control environment on an ongoing basis.
- (x) Whether the financial service intermediary conducts security education to all officers and employees (including confirmation of whether security education has been conducted at outsourcing contractors) in order to raise awareness of information security.
- (xi) When selecting and using one from among cloud services provided by third-party organizations, whether the financial service intermediary properly assesses the safety of information security on the basis of its characteristics.
- (xii) Whether the financial service intermediary has prepared appropriate authentication functions to protect users in a manner commensurate with risk when they access its services.
- (xiii) See III-2-2 (2)(iv) for measures to be taken for the provision of personal data acquired through financial service intermediary business to third parties.

(5) Cybersecurity management

- (i) Whether the person responsible for the business operations has recognized the importance of cybersecurity amid increasingly sophisticated and cunning cyberattacks and introduced the necessary control environment.
- (ii) Whether the financial service intermediary has introduced systems to maintain cybersecurity, such as those listed below, in addition to making the organization more secure and introducing in-house rules.
- Monitoring systems against cyberattacks;
 - Systems to report cyberattacks and a public-relations system when attacks occur;
 - Emergency measures by an in-house Computer Security Incident Response Team (CSIRT) and systems for early warning; and
 - Systems of information collection and sharing through information-sharing organizations, etc.

(iii) Whether the financial service intermediary has introduced a multi-layered defense system against cyberattacks that combines security measures respectively for inbound perimeter control, internal network security control, and outbound perimeter control.

- Security measures for inbound perimeter control (e.g., introduction of a firewall, anti-virus software, unauthorized intrusion detection system, unauthorized intrusion prevention system, etc.);
- Security measures for internal network security control (e.g., proper management of privileged IDs/passwords, deletion of unnecessary IDs, monitoring of execution of certain commands, etc.); and
- Security measures for outbound perimeter control (e.g., retrieval and analysis of communication/event logs, detecting/blocking inappropriate communication, etc.)

(iv) Whether measures such as those listed below are implemented to prevent damage from expanding when cyberattacks occur.

- Identification of IP addresses from which the cyberattacks originate, and blocking-off of attacks;
- Functions to automatically decentralize access against DDoS attacks; and
- Suspension of the system in whole or in part, etc.

(v) Whether necessary measures for vulnerabilities in the system, such as updating of the operating system and application of security patches, are introduced in a timely manner.

(vi) Whether the financial service intermediary, as part of cybersecurity measures, assesses its security levels periodically by using relevant vulnerability scanning or penetration tests, etc. and makes efforts to improve security.

(vii) Whether the financial service intermediary has developed contingency plans against potential cyberattacks. And whether it conducts exercises and reviews such plans in order to enhance security management.

(6) IT system planning/development/management

(i) Whether the management works out and carries out plans on technological improvements required to continue business operations including the inheritance of the current system structure and development technology.

(ii) Whether the financial service intermediary sets and verifies the test scenarios based on the operation environment of the user side with regard to new services provided, changes in the financial institution's API specification, and changes in the certification system.

(7) IT system audit

(i) Whether an internal audit division that is independent from the IT systems division conducts periodic audits of IT systems.

(ii) Whether the financial service intermediary conducts internal audits by computer system experts and utilizes external audits by IT system auditors, etc.

- (iii) Whether the audit covers all business operations related to IT system risk.
- (iv) Whether the results of the IT system audit are reported to the board of directors in a proper manner.

(8) Management of outsourcing relating to IT system

- (i) Whether the financial service intermediary selects outsourcing contractors after evaluation and consideration based on selection standards.
- (ii) In the outsourcing contract, whether the financial service intermediary stipulates the division of roles and responsibilities with the outsourcing contractor, audit authority, subcontracting procedures, and level of services provided, etc. Also, whether the financial service intermediary presents the rules and security requirements to be observed by the outsourcing contractor's officers and employees to the outsourcing contractor, and stipulates them in the contract, etc.

- (iii) Whether risk management is carried out properly in outsourced IT system work (including work sub-outsourced).

In particular, where the financial service intermediary outsources IT system work to multiple contractors, whether the financial service intermediary has developed a control environment while fully understanding the situation in which related administrative work becomes more and more complicated.

In cases where the financial service intermediary outsources IT system administration, whether the financial service intermediary properly manages the risk thereof in the same manner as the risk of outsourcing of IT system work.

- (iv) Whether the financial service intermediary, as an outsourcer, periodically conducts monitoring to ensure that outsourced work (including further sub-outsourced work) is carried out appropriately.

Whether the financial service intermediary has made arrangements for outsourcers to monitor and track the management of customer data at outsourcing contractors.

(9) Contingency plan

- (i) Whether the financial service intermediary has developed a contingency plan and established arrangements and procedures for emergency situations.
- (ii) When developing a contingency plan, whether the financial service intermediary assumes not only contingencies due to natural disasters but also system failures due to internal or external factors.
- (iii) Whether the financial service intermediary reviews assumed scenarios in its contingency plan by, for example, taking into consideration results of deliberations on case studies of system failures at other financial institutions and other financial service intermediaries.

(10) Measures to prevent damage from spreading

(i) Whether the financial service intermediary considers taking appropriate measures to avoid causing unnecessary confusion among users (including measures to prevent the spread of damage) when system failures occur. In cases where only the system of the financial service intermediary stops, users may be able to communicate the content of customers' orders or other information necessary in relation to contracts if they use the financial institution's system directly, without passing through the system of the financial service intermediary. In light of this, whether the financial service intermediary is able to properly guide users and respond to consultation and inquiry from users.

Also, whether the financial service intermediary makes efforts to establish its communication system between the financial service intermediary and the cloud provider when some failure occurs in the cloud service. The financial service intermediary is required to recognize the importance of considering the measures to be taken and timely and appropriate arousing of the attention to users in such cases.

(ii) Whether the financial service intermediary considers a control environment, upon assuming a worst-case scenario in preparation for system failures, to take necessary measures accordingly.

(iii) Whether the financial service intermediary has clarified reporting procedures and command chains covering outsourcing contractors in preparation for system failures.

(iv) Whether the financial service intermediary considers analysis of causes of system failures that occurred, investigation about impact until recovery, corrective actions, and preventive measures for recurrence in a proper manner.

(v) Whether the financial service intermediary performs a risk evaluation in terms of influence spread, for example, by understanding the spread of effects of partial system failures and a single point of failure that cannot be circumvented, in order to mitigate the effects of system failures. And whether the financial service intermediary considers establishing a service system mechanism for minimizing the damage to users by using a cloud service mechanism properly to mitigate risks.

(vi) Whether the financial service intermediary has developed a system to quickly report IT system failures, etc. to the authorities.

(11) Points to note pertaining to financial service intermediaries that handle electronic financial service intermediary business operations

In addition to (1) to (10) above, the FSA shall check whether the financial service intermediary that conducts electronic financial service intermediary business has excluded a single point of failure (SPOF) from IT systems for electronic financial service intermediary business as much as possible and developed arrangements to continue business operations even in the event of system failures, etc. (see (2)(iii) above). Given that even if IT systems of an electronic financial service intermediary fail, its customers may be able to accomplish their objectives by using such systems of financial institutions directly without accessing those of the electronic

financial service intermediary, the FSA shall verify the financial service intermediary's arrangements for reporting to financial institutions and other cooperation procedures, as well as its arrangements for providing relevant information to customers.

III-2-13-3 Supervisory Approaches and Actions

(1) When a system failure related to financial service intermediary business has occurred

(i) Immediately after recognizing the occurrence of a system failure, etc., the financial service intermediary is required to report the fact to the FSA.

In addition, the financial service intermediary is required to report on causes of the system failure when they are identified and resolved upon recovery of the system. However, even in cases where the causes are not identified, the financial service intermediary is required to report the current situation within one month from the occurrence of the system failure.

In particular, when a system failure that has a great impact on society has occurred, or when it takes time for the financial service intermediary to solve the causes of the failure, the FSA, while monitoring the financial service intermediary activate its contingency plan including a general announcement of the details of the failure to the public and responses to users on its website, etc., requires the financial service intermediary the prompt clarification of the cause and restoration of operations.

Local Finance Bureaus, when receiving reports from financial service intermediaries, shall immediately contact the Financial Service Intermediary Business Office, Risk Analysis Division, FSA Strategy Development and Management Bureau.

(Note) System failures that must be reported

Problems that must be reported are those which, no matter what the causes are, affect systems and equipment (including both hardware and software) that are currently used by financial service intermediaries, etc. (including outsourcing contractors, financial institutions linked through systems in relation to financial service intermediary business, and cloud service providers used by the financial service intermediaries) and whose functions are or could be delayed or stopped.

However, even though some of the systems and equipment have such troubles, the reporting requirement is not applicable in cases where a backup system has quickly started up and effectively prevented adverse effects.

Even though a failure or trouble does not actually occur, the financial service intermediary is required to report when the users or business operations are affected or highly likely to be affected because it receives an advance notice of cyberattack or it has found a cyberattack in its IT system. (Response is to be made based on the business characteristics of the financial service intermediary.)

(ii) The FSA shall request reports based on Article 35(1) of the Act on the Provision of Financial Services as necessary. If financial service intermediaries are identified as having serious problems, the FSA shall take

actions, such as the issuance of a business improvement order based on Article 37 of the Act on the Provision of Financial Services. If serious and malicious legal violations are identified, the FSA shall consider necessary actions, including the issuance of a business suspension order based on Article 38(1) of the Act on the Provision of Financial Services.

(2) Updates of IT systems

When the financial service intermediary intends to update its important IT systems, etc., the FSA, if it deems necessary, will require the financial service intermediary to make a report based on Article 35(1) of the Act on the Provision of Financial Services and confirm the planning and progress as well as appropriateness and feasibility of the project management thereof.

(3) Response to outsourcing contractors

When it deems necessary, for example, in cases where there is a concern that outsourcing contractors fail to properly operate outsourced work relating to IT systems, the FSA will take actions as follows.

(i) Cases where a problem is found in the control environment of the financial service intermediary

In cases where a problem regarding the financial service intermediary's control environment for outsourcing business operations is found through reports to the authorities in (i) above, the FSA shall request reports based on Article 35(1) of the Act on the Provision of Financial Services as necessary. If the financial service intermediary is identified as having serious problems, the FSA shall take actions, such as the issuance of a business improvement order based on Article 37 of the Act on the Provision of Financial Services. If serious and malicious legal violations are identified, the FSA shall consider necessary actions, including the issuance of a business suspension order based on Article 38(1) of the Act on the Provision of Financial Services.

(ii) Cases where a problem is found in the control environment of business operation, etc. of the outsourcing contractor.

The FSA makes efforts to understand the situation through the financial service intermediary which has entrusted operations to the outsourcing contractor. In this case, too, the FSA will require the financial service intermediary, as needed, to submit a report based on Article 35(1) of the Act on the Provision of Financial Services, and if a serious problem is found, the FSA will issue a business improvement order based on Article 37 of the Act on Provision of Financial Services. Furthermore, in such cases as serious and malicious legal violations are identified, the FSA will consider necessary actions, including the issuance of a business suspension order based on Article 38(1) of the Act on the Provision of Financial Services. However, when

the case involves an urgent and substantially important matter or when the FSA considers that it is difficult to grasp the actual situation of the outsourcing sufficiently only by asking for confirmation from the financial service intermediary, the FSA will make efforts to grasp the situation by holding a direct interview with the outsourcing contractor. When it is deemed particularly necessary (for example, in cases where multiple financial service intermediaries entrust similar work to such outsourcing contractor), the FSA will request such outsourcing contractor to submit a report based on Article 35(2) of the Act on the Provision of Financial Services with regard to necessary matters, such as the fact of occurrence of a problem, analysis on causes of occurrence of the problem, and improvement measures.

(Note) When conducting an interview with an outsourcing contractor, the FSA asks the financial service intermediary that has entrusted operations to the outsourcing contractor to attend the interview as needed.

III-2-14 Crisis Management System

In recent years, crisis management has become more significant as the diversification and complication of risks facing financial service intermediaries have been combined with progress in computerization to indicate that a crisis that cannot be addressed with usual risk management has the potential to occur.

Even if various risks arise, it may be desirable for financial service intermediaries to try to maintain their functions as much as possible to deter unnecessary confusion in society in consideration of the public nature of their business operations. Given the above, the FSA, in supervising financial service intermediaries, shall pay attention to the following viewpoints according to their business profiles.

(1) Major Supervisory Viewpoints

(i) Actions in normal times

(A) Whether the financial service intermediary recognizes what constitutes an emergency and whether it striving as much as possible to prevent or guard against any emergency (prepare countermeasures against an emergency that may be unpreventable) by, for example, conducting inspections and anti-crisis practices periodically in normal times.

(B) Whether the financial service intermediary has formulated a crisis management manual. Whether the financial service intermediary has developed a system to maintain effectiveness by such means as revising the crisis management manual in light of the actual state of its business operations and its surrounding risk environment, etc. on a continuous basis. It is desirable that the financial service intermediary should use objective benchmarks as a basis for the formulation of its crisis management manuals.

(Reference) Examples of conceivable emergency

- Natural disasters (earthquakes, wind or flood damages, abnormal weather, epidemics of infectious diseases, etc.)
- Acts of terrorism and wars (including those that occur outside Japan)
- Accidents (large scale power failures, computer system breakdowns, etc.)
- Unfounded/harmful rumors (word of mouth rumors, internet messages, e-mail messages, news articles based on speculation, etc.)
- Crimes committed against financial service intermediaries (blackmail, intervention by anti-social forces, data theft, and abduction of officers or employees)
- Problems involved in business operations (responses to complaints and inquiries, error in data entry, etc.)
- Problems related to personnel management affairs (accidents and crimes involving officers and employees, internal disputes, sexual harassment cases, etc.)
- Problems related to labor affairs (cases of whistle blowing, deaths from excessive workloads, occupational diseases, drain of human resources, etc.)

(c) Whether the crisis management manual notes the importance of initial responses, such as accurate identification and objective judgment of the situation and dissemination of information in the period immediately after the occurrence of the emergency.

(d) Whether the crisis management manual clarifies the allocation of responsibilities in the event of an emergency and specifies arrangements and procedures for reporting the occurrence of the emergency throughout the organization and to other parties concerned (including the relevant authorities). Whether the crisis management manual specifies arrangements and procedures for reporting the occurrence of an emergency to relevant overseas supervisory authorities and other relevant organizations, depending on the extent of its possible impact abroad as well as its level and type. It is desirable that anti-crisis arrangements and procedures be established under the supervision of the crisis management headquarters that oversees organization-wide response in light of the levels and types of emergencies assumed for each division and branch.

(e) Whether the financial service intermediary makes daily efforts to disseminate and collect information in a conscientious manner.

(ii) Actions to Emergencies

(A) When the FSA has recognized the occurrence of an emergency or the possibility of an emergency occurring, it should hold hearings periodically and check the situation first hand so that it can identify and keep track of how the financial service intermediary is responding to the emergency, including whether the response (status of the development of a control environment for crisis management, communications with relevant parties and dissemination of information) is sufficient in light of the level and type of the emergency, until the situation is stabilized. In addition, the FSA will require the financial service

intermediary to submit a report based on Article 35(1) of the Act on the Provision of Financial Services when necessary.

(B) In the above case, reports shall be made immediately to relevant FSA divisions for their close cooperation

(iii) Post Crisis Actions

In cases where the FSA has concluded, after the emergency has been brought under control by the financial service intermediary, that it is necessary to examine the financial service intermediary's response to the emergency, the FSA will require the financial service intermediary to submit a report regarding the outline of the crisis, the financial service intermediary's response, and analysis of causes and preventive measures for recurrence thereof under Article 35(1) of the Act on the Provision of Financial Services.

(iv) Crisis Management System against Reputation Risk

(A) Whether the financial service intermediary has developed a control environment for managing reputational risk. Also, whether it has specified rules on how the HQ, divisions, and sales offices should respond to the circulation of unfounded/harmful rumors. It is desirable that the financial service intermediary consider how to respond when unfounded/harmful rumors regarding other financial service intermediaries or their business clients, etc. are circulated.

(B) Whether the financial service intermediary regularly checks whether there are unfounded/harmful rumors circulating in each media category (e.g., internet messages, news articles based on speculation).

(2) Supervisory Methods and Measures

Regarding financial service intermediaries' problems pertaining to their crisis management systems identified through daily supervisory operations and accident reports, the FSA shall conduct in-depth interviews and request reports based on Article 35(1) of the Act on the Provision of Financial Services as necessary to check the financial service intermediaries' voluntary business improvements. If financial service intermediaries are identified as having serious problems regarding their securement of sound and appropriate business operations or customer protection, the FSA shall take actions, such as the issuance of a business improvement order based on Article 37 of the Act on the Provision of Financial Services. If serious and malicious legal violations are identified, the FSA shall consider necessary actions, including the issuance of a business suspension order based on Article 38(1) of the Act on the Provision of Financial Services.

III-2-15 Disclosure of Fees, etc. Received by Financial Service Intermediaries

Regarding supervising the provision of information on fees, etc. financial service intermediaries receive from customers based on Article 33(2)(iii) of the Cabinet Office Order on Financial Service Intermediaries and the

disclosure of amounts of the fees, etc. financial service intermediaries receive based on Article 25(2) of the Act on the Provision of Financial Services, the FSA shall abide by the following interpretation, enforcement and procedures of relevant laws and regulations.

(1) Whether the amounts or upper limits of fees, etc. the financial service intermediary receives from its customers based on Article 33(2)(iii) of the Cabinet Office Order on Financial Service Intermediaries, or an overview of their calculation methods (if these cannot be specified, that effect and the reasons for that effect) are clearly separated from the consideration customers pay for financial service contracts (e.g., insurance premiums, securities prices, etc.) when they are provided.

(2) Major financial institutions that have financial service intermediary business relations with a financial service intermediary as defined in Article 34(i) of the Cabinet Office Order on Financial Service Intermediaries are approximately the four largest financial institutions ranked by the fees, etc. the financial service intermediary received in the latest business years (the latest business year, if not plural) for each financial service intermediary business type.

As for the first year of business (in the absence of the latest business year), it is sufficient that the major financial institutions are approximately the four largest ones ranked by fees, etc. computed reasonably based on objective data.

(3) Information cited in Article 34(i) of the Cabinet Office Order on Financial Service Intermediaries shall be disclosed by a financial service intermediary to its counterparty financial institutions for each business year and each business type.

III-2-16 Points to Note in Financial Service Intermediaries Outside the Certified Financial Service Intermediary Business Associations

In supervising financial service intermediaries that have not joined the certified Financial Service Intermediary Business Association (referred to as “financial service intermediaries outside the Association” in III-2-16), the FSA shall pay attention to the following viewpoints:

(1) Major supervisory viewpoints

- (i) Whether the financial service intermediary outside the Association has appropriately developed internal rules pursuant to the articles of incorporation and other rules of the certified Financial Service Intermediary Business Association (hereinafter referred to as the “association rules”)
- (ii) Whether the financial service intermediary has developed a control environment to secure adequate compliance with its internal rules (including their communication to officers and employees, training sessions for employees and verification of compliance with the rules).
- (iii) Whether the financial service intermediary revises its internal rules in immediate response to revisions to

the association rules.

(2) Supervisory Methods and Measures

Regarding problems pertaining to the formulation of, the revision of and compliance with internal rules at financial service intermediaries outside the Association, the FSA shall conduct in-depth interviews with the financial service intermediaries and request reports based on Article 35(1) of the Act on the Provision of Financial Services as necessary to check their voluntary improvements. If the financial service intermediaries are identified as having serious problems regarding their securement of sound and appropriate business operations or customer protection, the FSA shall take actions, such as the issuance of a business improvement order based on Article 37 of the Act on the Provision of Financial Services. If the financial service intermediaries are found through the requested reports as having failed to formulate internal rules pursuant to the association rules or develop control environments for compliance with the internal rules, the FSA shall consider necessary actions, including the issuance of a business suspension order based on Article 38(1) of the Act on the Provision of Financial Services.

III-2-17 Actions to Take When Acquiring Information Regarding Continuity of Business

Even individuals can serve as financial service intermediaries and financial regulations on financial service intermediaries are limited to security deposit regulations. They are not subjected to monitoring regarding the net assets or capital adequacy requirement. Therefore, it must be noted that financial service intermediaries may apply for bankruptcy procedures before supervisory authorities accurately ascertain their financial conditions. When finding that a financial service intermediary has excessive liabilities and is likely to become insolvent, supervisory authorities should confirm the facts to fully verify whether some actions would be required to protect customers.

Given this point, supervisory authorities shall take the following actions in addition to those in III-3-2 to protect customers if a financial service intermediary is found likely to become insolvent due to excessive liabilities, etc. or apply for starting bankruptcy procedures.

Local Finance Bureaus shall try to take fact-based actions for individual cases and quickly notify the FSA of facts and responsive policies regarding individual cases for coordination of responsive actions.

(1) Responding to financial problems found at a financial service intermediary

(i) The FSA shall confirm the facts by interviewing the financial service intermediary with problems on its financial conditions and the status of its transactions with customers (including the number and details of financial service contracts for its intermediation and the amount of fees paid by its customers) and encourage the financial service intermediary to formulate measures to resolve the fear of insolvency.

(ii) If problems regarding customer protection at the financial service intermediary are found through the

interview, the FSA shall promptly order the financial service intermediary to submit a report on facts and how to resolve the problems, based on Article 35(1) of the Act on the Provision of Financial Services.

(iii) After receiving the report, the FSA shall follow up on progress in the resolution of the problems. If no improvement is seen, the FSA shall consider measures such as the issuance of a business improvement order based on Article 37 of the Act on the Provision of Financial Services.

(2) Responding to information on the financial service intermediary's application for starting bankruptcy procedures

(i) By ordering the financial service intermediary to submit a report based on Article 35(1) of the Act on the Provision of Financial Services, the FSA shall promptly identify relevant facts, financial conditions of the financial service intermediary, the status of its transactions with customers (including the number and details of financial service contracts for its intermediation and the amount of fees paid by its customers), the status of its dealing with customers, policies on business continuity, etc.

(ii) The FSA shall follow up on the financial service intermediary's implementation of measures given in the above report and ask the financial service intermediary as necessary to scrutinize business continuity policies. The FSA then shall consider actions, such as the issuance of a business improvement order based on Article 37 of the Act on the Provision of Financial Services.

(3) Responding to information on an application by a financial service intermediary's parent company, etc. for starting bankruptcy procedures

If a company whose application for starting bankruptcy procedures may exert great influence on a financial service intermediary (hereinafter referred to as "parent company, etc." in III-2-17) applies for starting bankruptcy procedures, the FSA shall order the financial service intermediary to submit a report based on Article 35(1) of the Act on the Provision of Financial Services and promptly identify the financial service intermediary's financial conditions based on the latest conditions of the parent company, etc., its transactions with the parent company, etc., the status of its transactions with customers (including the number and details of financial service contracts for its intermediation and the amount of fees paid by its customers), policies on business continuity, etc.

(4) Responding to a decision to start bankruptcy procedures

(i) The FSA shall confirm whether a report based on Article 16(3)(vi) of the Act on the Provision of Financial Services has been submitted and, as necessary, ask the financial service intermediary to promptly respond.

(ii) The FSA shall try to cooperate with a bankruptcy administrator as necessary to protect customers.

(5) Responding to a case where a sales or business office cannot be identified

If a financial service intermediary's sales or business office (a location of a representative director of a financial service intermediary company) cannot be identified, the FSA shall issue a public notice on the fact based on Article 38(4) of the Act on the Provision of Financial Services. If the financial service intermediary makes no response to the public notice within 30 days after the notice, the FSA shall cancel the registration of the financial service intermediary.

(6) Responding to the acquisition of information indicating problems regarding the continuity of a financial service intermediary or a parent company, etc.

(i) The FSA shall interview the financial service intermediary on a voluntary basis to ascertain facts regarding the information, the financial intermediary's financial conditions, the status of its transactions with customers (including the number and details of financial service contracts for its intermediation and the amount of fees paid by its customers), policies on business continuity, etc.

(ii) If the financial service intermediary refuses to accept the above interview or the FSA finds concern about the continuity of the financial service intermediary's business operations through the above interview, the FSA shall order the financial service intermediary to submit a report based on Article 35(1) of the Act on the Provision of Financial Services to promptly ascertain the relevant facts. If necessary to protect customers, the FSA shall consider such actions as the issuance of a business improvement order based on Article 37 of the Act on the Provision of Financial Services.

III-2-18 Mutatis Mutandis Application of Guidelines to Deemed Electronic Payment Service Providers

X-1 to X-5 of the Comprehensive Guidelines for Supervision of Major Banks, etc. (hereinafter referred to as "Supervisory Guidelines for Major Banks") shall apply mutatis mutandis to financial service intermediaries engaging in electronic payment services based on Article 18(1) of the Act on the Provision of Financial Services.

III-3 Administrative Procedures – Books and Documents Related to Registration, Notification and Business (General)

III-3-1 Registration

III-3-1-1 Points to Note in Registration Permission

Applications for registration of financial service intermediary business shall be processed as follows:

(1) Submission address for registration and change registration application forms

When receiving a registration application form from a financial service intermediary business registration applicant or a financial service intermediary, the FSA shall check whether the form is addressed to the Director-General of the Local Finance Bureau administering the applicant's major sales or business office (the Director-General of the Kanto Local Finance Bureau for an applicant that has no sales or business office in Japan).

When receiving a change registration application form from a financial service intermediary administered by a Local Finance Bureau, the FSA shall check whether the form is addressed to the Director-General of the Local Finance Bureau administering the applicant's major sales or business office (the Director-General of the Kanto Local Finance Bureau for an applicant that has no sales or business office in Japan). When receiving a change registration application form from a financial service intermediary administered by the FSA, the FSA shall check whether the form is addressed to the FSA Commissioner.

(2) Points to note before registration

- (i) The FSA shall warn a registration applicant to refrain from doing any business until it is registered in the register of financial service intermediaries
- (ii) When a registration applicant conducts other FSA-administered business operations subjected to an administrative disposition, the FSA shall check the details of the disposition and interview the applicant as necessary to check relevant improvements.

When the administrative disposition is related to the legal compliance frameworks, the FSA shall take note of III-2-1.

(3) Handling of registration numbers

- (i) The Director-General of each Local Finance Bureau shall give serial registration numbers and write each number as follows in the register of financial service intermediaries:

e.g., Director-General of the XX Local Finance Bureau (Financial Service Intermediary) No. XX

- (ii) If a registration expires, the relevant registration number shall be vacant without being taken over by any other.

(iii) Registration numbers shall be managed through the registry of financial service intermediary registration numbers in Appendix Form III-2.

(4) Notifications to registration applicants

When registration applicants are registered in the register of financial service intermediaries, registration notifications in Appendix Form III-3 shall be issued or provided to the applicants.

(5) Procedures after registration

A registration applicant shall make a security deposit (by concluding a contract as prescribed in Article 22(3) of the Act on the Provision of Financial Services) and start business without delay after the registration.

(6) Refusal of registration

(i) When refusing the registration, the FSA shall issue or provide a written notice of refusal of registration using Appendix Form III-4 to the applicant. The notice shall specify the reasons for the refusal and note that the applicant may file an appeal against the refusal with the FSA Commissioner or a suit requesting the government to cancel the refusal.

(ii) The written notice of refusal of registration shall specifically clarify the relevant item out of the items of Article 15 of the Act on the Provision of Financial Services that corresponds to the reasons for the refusal, or false descriptions of important matters or omissions of important facts in the written registration application and attached documents.

(7) Register of financial service intermediaries

(i) The register of financial service intermediaries shall cover Pages 2 to 9 of a copy of the written registration application.

(ii) When a written report on changes to particulars described in the written registration application is submitted, pages for changes in the register of financial service intermediaries shall be replaced with the changed pages of the written registration application attached to the report.

(iii) If FSA-administered financial service intermediaries submit reports on changes to particulars in their written registration applications, the FSA send changed pages of written registration applications submitted in a month by the 20th day of the next month to Local Finance Bureaus that registered the financial service intermediaries.

(iv) The date of public inspection of the register of financial service intermediaries should be a day other than a holiday as specified in Article 1 of the Act on Holidays of Administrative Organs (Act No. 91 of 1988),

and the public inspection period should be within the duration designated by the Local Finance Bureau Director-General. However, when it is necessary to organize the register of financial service intermediaries or for any other reason, the public inspection date or time may be changed.

- (v) Inspectors of the register of financial service intermediaries shall be required to fill out the prescribed sections of Appendix Form III-5 for a list of inspectors of the register of financial service intermediaries.
- (vi) The register of financial service intermediaries must not be taken out of the place of the public inspection designated by the Director-General of the Local Finance Bureau.
- (vii) When any inspector falls under the following category, the public inspection may be suspended or refused:
 - (A) Any person who does not follow (iv) to (vi) above or the instructions of the bureau.
 - (B) Any person who has defaced or damaged the register of financial service intermediaries, or who may do so.
 - (C) Those who have caused trouble to other inspectors, or who may do so.

(8) Points to note pertaining to financial service intermediaries that have no plan to join the certified Financial Service Intermediary Business Association

Financial service intermediary registration applicants that have no plan to join the certified Financial Service Intermediary Business Association shall be notified of the following particulars and asked to appropriately respond:

- (i) If a financial service intermediary fails to develop internal rules pursuant to the association rules or a control environment for its compliance with its internal rules after its registration, it may be subjected to supervisory actions pursuant to III-2-16.
- (ii) If a financial service intermediary fails to revise its internal rules in line with any revisions to the association rules, it may fall under (i) above.

III-3-1-2 Entries in Registration Application Form

When checking the entries in the registration application form, the FSA shall take note of the following points.

(1) Trade name or name of the applicant (Article 13(1)(i) of the Act on the Provision of Financial Services)

In the case where an applicant is an individual, check whether the applicant enters, in the “trade name or name” column, either his/her trade name when the trade name has been registered or his/her fictitious business name when a fictitious business name has been used.

(2) Name and location of the applicant's business office(s) or other office(s) at which the applicant would perform

financial service intermediary business (Article 13(1)(iii) of the Act on the Provision of Financial Services)

“Business office(s) or other office(s)” in the registration application form refers to certain facilities to be established for the operation of all or part of the financial service intermediary business, and exclude facilities that serve for purposes other than financial service intermediary business-related operations.

- (3) If that individual is involved in the ordinary business of another corporation, the other corporation's trade name or name (Article 10 (i) and (ii) of the Cabinet Office Order on Financial Service Intermediaries)

As for the other corporation's trade name or name, check whether the official name (such as “XX Incorporated”), instead of the informal name (such as “XX Inc.”), has been entered.

- (4) In the case where the person also engages in businesses other than financial service intermediary business, the type of each of these businesses (Article 13(1)(vii) of the Act on the Provision of Financial Services)

As for the types of these other businesses, check whether the entry is in accordance with the Middle Classification as set forth in the Japan Standard Industrial Classification stipulated in the Ministry of Internal Affairs and Communications Public Notice No. 405 titled “Establishment of the classification concerning industries pursuant to the provision of Article 28 of the Statistics Act” (hereinafter referred to as “the Japan Standard Industrial Classification”) (in cases where these other businesses fall under the Large Classification J-FINANCE AND INSURANCE, the entry should be in accordance with the Fine Classification).

- (5) “A person whose other business is found to be contrary to the public interest” (Article 15(i)(o) of the Act on the Provision of Financial Services)

Cases where a concurrent business is found to be contrary to the public interest include not only a case where a financial service intermediary’s concurrent business is illegal, but also a case where its concurrent business is found to be socially unreasonable. The socially unreasonable business is related to anti-social forces, such as Boryokudan crime syndicates, criticized socially or likely to be criticized socially. In judging specific cases, the FSA shall take into comprehensive consideration the characteristics and mode of the concurrent business and its impact on transaction counterparties and society.

III-3-1-3 Attached Documents

When checking the attached documents, the following points should be noted.

- (1) Document in which the registration applicant pledges not to fall under each item of Article 15 (Article 13(2)(i))

and (iv) to (vii) of the Act on the Provision of Financial Service)

The following documents shall include not only pledges as specified respectively but also a recognition that the pledges, if found false, may fall under Article 38(1)(vi) of the Act on the Provision of Financial Services.

(i) Document in which the registration applicant pledges not to fall under Article 15(i)(a) to (n),(ii), or (iii)

The registration applicant does not fall under Article 15(i)(a) to (n),(ii), or (iii).

(ii) Document in which the registration applicant pledges not to fall under Article 15(iv)

The registration applicant does not fall under Article 15(iv).

(iii) Document in which the registration applicant pledges not to fall under Article 15(v)(a), (b), (c) (excluding 2.), (d) (excluding the portion pertaining to (c)2.), or (e) (excluding the portion pertaining to (c)2.)

The registration applicant does not fall under Article 15(v)(a), (b), (c) (excluding 2.), (d) (excluding the portion pertaining to (c)2.), or (e) (excluding the portion pertaining to (c)2.).

(iv) Document in which the registration applicant pledges not to fall under Article 15(vi)

The registration applicant does not fall under Article 15(vi).

(v) Document in which the registration applicant pledges not to fall under Article 15(vii)

The registration applicant does not fall under Article 15(vii).

(2) “Articles of incorporation” (Article 13(2)(ii) of the Act on the Provision of Financial Services)

Whether the purpose of the articles of incorporation sets forth business operations pertaining to financial service intermediation (pertaining to the types of business planned by the registration applicant).

(3) “Documents stating what is provided for by Cabinet Office Order as the details and method of the financial service intermediary business operations” (Article 13(2)(iii) of the Act on the Provision of Financial Services)

(i) The FSA shall check whether the details and method of business operations as prescribed in Article 11(i) of the Cabinet Office Order on Financial Service Intermediaries specify the following particulars:

(A) Operational district

(B) Operation mode (face-to-face operations, use of computers connected with telecommunications networks, presence or absence of hired persons in the case of the applicant being an individual, etc.)

(C) Sales office mode (manned sales office, unmanned sales office)

(D) System for carrying out financial service intermediary business

If necessary to identify the status of the system for carrying out financial service intermediary business, the FSA shall ask the registration applicant to submit a system chart, an organizational chart, etc.

(4) Resume (Article 12(i)(a) of the Cabinet Office Order on Financial Service Intermediaries), or resume of every

officer (Article 12(ii)(a) of the same Cabinet Office Order)

- (i) In cases where the present address in the “resume” (when the applicant is an individual) or in the “resume of every officer” (when the applicant is a corporation) is not identical to the address in the corresponding extract of the resident record, check the reason. Also check whether the two addresses have been entered in the “resume” or the “resume of every officer.”
- (ii) Check whether the Chinese characters used in the name in the “resume” or the “resume of every officer” are identical to those used in the name in the corresponding extract of the resident record. (For example, when an old-style Chinese character has been used in the name in the extract of the resident record, the same old-style Chinese character should be used in the name in the “resume” or the “resume of every officer.”)

(5) Extract of a resident record (Article 12(i)(b) and (ii)(b) of the Cabinet Office Order on Financial Service Intermediaries)

The “extract of a resident record” to be submitted should contain the following items:

- (i) Address
- (ii) Name
- (iii) Date of birth

(6) “Any document alternative thereto” (Article 12(i)(b) and (ii)(b) of the Cabinet Office Order on Financial Service Intermediaries)

- (i) “Any document alternative thereto” as prescribed in Article 12(i)(b) of the Cabinet Office Order on Financial Service Intermediaries refers to the following, and “any document alternative thereto” as prescribed in Article 12(ii)(b) of the Cabinet Office Order on Financial Service Intermediaries refers to the following or the certified or abridged copy of commercial registration for an officer being a corporation:

- (a) Certificate of entry in the resident card
- (b) Seal registration certificate
- (c) Copies of the following documents before expiration:

Individual Number Card, driver license, health insurance card, welfare certificates (e.g., mental disability certificate, physical disability certificate, rehabilitation certificate, etc.), pension handbook, passport, basic residential registry card, residence card or special permanent resident certificate

- (ii) A copy of a residence card or special permanent resident certificate submitted by a foreign resident in Japan, and a copy of a document amounting to a foreigner’s home country residence certificate or any other similar document submitted by a non-resident foreigner shall fall under “any document alternative thereto” in Article 12(i) and (ii) of the Cabinet Office Order on Financial Service Intermediaries.

- (7) “Document clarifying that the registration applicant has the ability to accurately perform financial intermediary business” (Article 12(iii) of the Cabinet Office Order on Financial Service Intermediaries)

The FSA shall check whether the “document clarifying that the registration applicant has the ability to accurately perform financial intermediary business” describe persons with enough knowledge and experiences for accurately performing financial service intermediary business and their planned assignments.

Persons with enough knowledge and experiences for accurately performing financial service intermediary business shall include officers, employees and other persons cited in V-2-2(2)(i)(A) and (B), VI-2-1-2(1), VII-2-1(2)(A) and (B), and VIII-3-1-2(2)(ii)(E).

For others regarding the “document clarifying that the registration applicant has the ability to accurately perform financial intermediary business,” see V-2-2(2), VI-2-1-1(2), VI-2-1-2(1), VII-2-1(2)(A) and (B), VIII-3-1-2(2).

- (8) “Document describing the details of concurrent businesses” (Article 12(iv) of the Cabinet Office Order on Financial Service Intermediaries)

The FSA shall check whether the “document describing the details of concurrent businesses” specifies the categories of concurrent businesses according to the middle classification in the Japan Standard Industry Classification (the small classification “Division J: finance and insurance”)

- (9) “Document describing the details of electronic financial service intermediary business operations and a system for performing the operations” (Article 12(viii) of the Cabinet Office Order on Financial Service Intermediaries)

(i) Check whether the details of electronic financial service intermediary business operations as prescribed in Article 12(viii) of the Cabinet Office Order on Financial Service Intermediaries include the method for conveying the details of customer orders to financial institutions as prescribed in Article 9 of the Cabinet Office Order on Financial Service Intermediaries.

(ii) Check whether the method in (i) above is for financial institutions to issue tokens or any other information for the conveyance to the registration applicant as requested by customers, rather than for the registration applicant to keep IDs, passwords, etc. issued by financial institutions to customers (IDs, passwords, etc. required for using services of financial institutions) and use the IDs and passwords for the conveyance.

(iii) Check whether the system for performing business operations as prescribed in Article 12(viii) of the Cabinet Office Order on Financial Service Intermediaries describes the names, titles and profiles of persons responsible for electronic financial service intermediary business operations.

(10) Public agency certificates

Public agency certificates among documents attached to written registration applications shall be those issued within three months before the application dates.

III-3-2 Notification

III-3-2-1 Points to Note Consider Regarding Notification

The FSA shall pay attention to the following points when accepting and processing various notifications as prescribed in the Act on the Provision of Financial Services.

(1) Submission address for written notifications

When receiving a written notification from a financial service intermediary administered by a Local Finance Bureau, the FSA shall check whether the notification is addressed to the Director-General of the Local Finance Bureau administering the financial service intermediary's major sales or business office (the Director-General of the Kanto Local Finance Bureau for a financial service intermediary that has no sales or business office in Japan). When receiving a written notification from a financial service intermediary administered by the FSA, the FSA shall check whether the notification is addressed to the FSA Commissioner.

(2) Points to consider when receiving notifications

Generally, when receiving notifications based on laws and regulations such as Article 16(3) of the Act on the Provision of Financial Services, the FSA shall fully scrutinize their details to check whether the notifications run counter to laws and regulations and whether they may cause problems with the appropriateness or soundness of business operations. If problems are found through the scrutiny, the FSA shall take measures such as the issuance of a request for reports based on Article 35(1) of the Act on the Provision of Financial Services and the issuance of a business improvement order based on Article 37 of the Act on the Provision of Financial Services.

III-3-2-2 Notification of Changes

(1) Change to the address or the name of the office location

When a financial service intermediary's address or the name of its office location is changed based on the Act on Indication of Residential Addresses (Act No. 119 of 1962), the financial service intermediary may not have to notify the change.

(2) Organizational change

When an incorporated financial service intermediary changes its organization legally, it shall submit a notification of the change.

(3) When a financial service intermediary relocates its main office from a location administered by a Local Finance Bureau to a new one administered by another Local Finance Bureau, the Local Financial Bureau at which the financial service intermediary is registered shall send the written notification of the change, the relevant part of the register of financial service intermediaries and other documents to the other Local Financial Bureau planned to administer the financial service intermediary at the new location.

III-3-2-3 Points to Note Regarding Notifications of Discontinuance of Business

When a financial service intermediary submits a notification based on Article 16(3)(iii) to (vii) of the Act on the Provision of Financial Services, the FSA shall interview the financial service intermediary to confirm that there is no reason for cancelling its registration based on Article 38(1) of the Act on the Provision of Financial Services.

III-3-3 Report on Registrations, etc.

Reports on registrations, etc. in a month shall be reported to the Financial Service Intermediary Business Office, Planning and Management Division, FSA Supervision Bureau by the 15th day of the next month.

III-3-4 Books and Documents Related to Business

Business-related books and documents as prescribed in Article 138 of the Cabinet Office Order on Financial Service Intermediaries (hereinafter referred to as “books and documents”) are legally required to be prepared and kept to accurately reflect the status of a financial service intermediary’s business operations and assets and verify the appropriateness of business operations and the financial soundness to contribute to investor protection. When the books and documents are verified, attention shall be paid to the following points:

(1) General points to consider

(i) Some books and documents shall be allowed to double as some other books and documents or be separated from others as far as reasonable. However, this shall be limited to cases where each book or document describes what it should describe.

- (ii) In III-3-4, the head office shall be replaced by the main sales office or business office for a foreign corporation and the branch office by any other sales or business office for such corporation.
- (iii) Of matters that fail to directly fall under any of the particulars for description in books and documents, those similar to any of the particulars shall be described. Those that fail to fall under any of the particulars shall not have to be described.
- (iv) When transaction records regarding brokerage, transaction records regarding the handling of sales or offers or the handling of private sales, and transaction records regarding brokerage for investment advisory or discretionary investment contracts are prepared, a transaction contract that describes all particulars for description in each book or document may be deemed to be each book or document, if a transaction contract is made at the time of the transaction. The transaction contract shall be compiled into a separate file.
- (v) Codes, abbreviations and other symbols that are handled in a unified manner at a financial service intermediary may be used for describing particulars in books and documents.
- (vi) When some of the particulars described in a book or document are linked to a transaction contract describing the particulars through a number, etc. and managed and stored along with the contract, they may be integrally deemed to be the book or document.
- (vii) Books and documents may be stored centrally after their preparation at a company entrusted by a financial service intermediary to prepare books and documents for the financial service intermediary, as far as the following conditions are met.
 - (A) The financial service intermediary is prepared to answer inquiries from customers quickly.
 - (B) Books and documents are made available for browsing at a sales or business office of the financial service intermediary within a reasonable period of time.
 - (C) Internal audit is not affected.
- (viii) While a financial service intermediary may prepare books and documents regarding its financial service intermediary business by using systems and formats of a financial institution dealing with the financial service intermediary regarding the business or entrust the financial institution to develop systems and formats for the preparation, the financial service intermediary shall be responsible for preparing and storing the books and documents.
- (ix) A financial service intermediary shall specify how to prepare and store books and documents in its internal rules, etc.

III-3-5 Business Reports

(1) Submission address for business reports

A financial service intermediary administered by a Local Finance Bureau shall be led to submit its business report prepared in Appendix Form (vii) of the Cabinet Office Order on Financial Service Intermediaries to the

Director-General of the Local Finance Bureau administering the financial service intermediary's main sales or business office (the Director-General of the Kanto Local Finance Bureau for a financial service intermediary that has no sales or business office in Japan). A financial service intermediary administered by the FSA shall be led to submit such business report to the FSA Commissioner.

(2) Points to note regarding business reports

When a business report stipulated in Appendix Form (vii) of the Cabinet Office Order on Financial Service Intermediaries is processed, attention shall be paid to the following point:

- As for a financial service intermediary that was found through the FSA's inspection to have inappropriate practices regarding employee training or to be subjected to a business improvement order, etc., the FSA shall check whether the objectives and priorities of training written in the column for the implementation of employee training are reasonable in the context of FSA findings.

IV Security Deposits and Financial Service Intermediary Liability Insurance Contract

IV-1 Security Deposits

Affairs related to security deposits of a financial service intermediary shall be performed in accordance with interpretations, operations, and procedures related to the following relevant laws and regulations.

IV-1-1 Notification of Deposit of Security Deposits, etc.

- (1) When making a notification related to a deposit pursuant to the provisions of Article 26(1)(i) of the Cabinet Office Order on Financial Service Intermediaries, a financial service intermediary shall submit a written notification of deposit of security deposits that is prepared in accordance with Appended Form IV-1, along with the document specified in paragraph (2)(ii) of the same Article to the Commissioner of the Financial Services Agency or director-general of the local finance bureau (hereinafter collectively referred to as the “director-general of the local finance bureau, etc.”) who oversees the financial service intermediary.
- (2) When making a notification related to the conclusion of a guarantee consignment contract pursuant to the provisions of Article 26(1)(iv) of the Cabinet Office Order on Financial Service Intermediaries, a financial service intermediary shall submit a written notification of the conclusion of a guarantee consignment contract that is prepared in accordance with Appended Form IV-2, along with the document specified in paragraph (2)(iii) of the same Article to the director-general of the local finance bureau, etc.
- (3) A custody certificate as provided for by Article 26(4) and Article 27(3) of the Cabinet Office Order on Financial Service Intermediaries and Article 13(5) of the Regulation on Security Deposits by Financial Service Intermediaries (hereinafter referred to as the “Security Deposit Regulation”) shall be prepared in accordance with Appended Form IV-3.

IV-1-2 Withdrawal of Security Deposits

- (1) The specification of the time and amount as specified in Article 22(11) of the Act on the Provision of Financial Services shall be implemented in consideration of the following matters related to the financial service intermediary.
 - (i) Public notification status of the right as provided for by Article 12(2) of the Security Deposit Regulation.
 - (ii) Existence of obligations arising in relation to the intermediation of conclusion of a financial service contract (including obligations that are in dispute).
 - (iii) Status of remaining financial service contracts for which the financial service intermediary intermediated the conclusion.
- (2) The specification of the time as provided for by Article 22(11) of the Act on the Provision of Financial Services must be made within a range of no longer than five years from the day when said specification was made in principle. The specification shall not be made for an application for approval of the restitution of security

deposits pursuant to the provisions of paragraph (10)(iii) of the same Article; provided, however, that this will not apply to cases where it is likely to fail to secure the performance of obligations arising with the financial service intermediary in relation to the financial service intermediary business operations.

- (3) A person who intends to apply for the restitution of security deposits pursuant to the provisions of Article 12(1) of the Security Deposit Regulation shall submit the following documents to the director-general of the local finance bureau, etc.
 - (i) A written application for approval that is prepared in accordance with Appended Form 3 to the Security Deposit Regulation as provided for by Article 12(1) of the Security Deposit Regulation.
 - (ii) A document proving that all or part of the security deposits may be recovered.
 - (iii) A document stating the status of (1), (ii) and (iii).
- (4) When intending to make a notification pursuant to the provisions of Article 26(1)(iii) of the Cabinet Office Order on Financial Service Intermediaries, a financial service intermediary shall submit a written notification of restitution of security deposits that is prepared in accordance with Appended Form IV-4, along with the documents specified in paragraph (2)(ii) of the same Article to the director-general of the local finance bureau, etc.
- (5) A public notification of reinstatement of security deposits pursuant to Article 12(2) of the Security Deposit Regulation shall be made pursuant to Appended Form IV-5.

IV-1-3 Cancellation or Change of Contract in Lieu of All or Part of Security Deposits

Cancellation or change of a guarantee consignment contract pursuant to the provisions of Article 27(ii) of the Order for Enforcement of the Act on the Provision of Financial Services shall be handled as stated below.

- (1) When canceling a guarantee consignment contract or changing the content thereof, the financial service intermediary (including a representative for the financial service intermediary pursuant to the provisions of the guarantee consignment contract; the same applies hereinafter in IV-1-3 (3)) shall submit a written application for approval of cancellation (change) of the guarantee consignment contract that is prepared in accordance with Appended Form IV-6 along with a document stating the necessity of allowances required for said cancellation of the contract or change of the content thereof to the director-general of the local finance bureau, etc.
- (2) When the director-general of the local finance bureau, etc. approves the cancellation or change of a guarantee consignment contract pursuant to the provisions of Article 27(ii) of the Order for Enforcement of the Act on the Provision of Financial Services, the director-general of the local finance bureau, etc. shall deliver or provide written approval for cancellation of the guarantee consignment contract that is prepared in accordance with Appended Form IV-7 or written approval for change of the guarantee consignment contract that is prepared in accordance with Appended Form IV-8 to the applicant.
- (3) When a guarantee consignment contract is canceled or the content thereof is changed based on the approval

pursuant to the provisions of Article 27(ii) of the Order for Enforcement of the Act on the Provision of Financial Services, the financial service intermediary shall submit a written notification of cancellation (change) of a guarantee consignment contract that is prepared in accordance with Appended Form IV-9 along with the documents specified in Article 26(2)(iii) of the Cabinet Office Order on Financial Service Intermediaries to the director-general of the local finance bureau, etc.

IV-1-4 Change of Custody of Guarantee Money, etc.

- (1) When making a notification of change of the nearest official depository pursuant to the provisions of Article 13(1) of the Security Deposit Regulation, the depositor shall submit a written notification of change of official depository that is prepared in accordance with Appended Form IV-10 to the director-general of the local finance bureau, etc.
- (2) When receiving delivery of the authenticated copy of the deposit certificate pursuant to the provisions of Article 13(2) of the Security Deposit Regulation, the depositor shall submit a receipt that is prepared in accordance with Appended Form IV-11 along with a custody certificate for said authenticated copy of the deposit certificate to the director-general of the local finance bureau, etc.

IV-1-5 Notice of Order for Additional Deposit of Security Deposits

When the director-general of the local finance bureau, etc. delivers a copy of a payment entrustment document pursuant to the provisions of Article 30(iii) of the Cabinet Office Order on Financial Service Intermediaries to a financial service intermediary related to the payment entrustment document, the director-general of the local finance bureau, etc. shall deliver a written notification that is prepared in accordance with Appended Form IV-12 along with a copy of the payment entrustment document.

IV-1-6 Types of Securities Allocatable for Security Deposits

When security deposits are deposited in the form of Japanese government bonds pursuant to the provisions of Article 22(9) of the Act on the Provision of Financial Services, registration applicants, etc. are informed of the fact that extinctive prescription may be completed after the predetermined period elapses pursuant to the Act on National Government Bonds (Act No. 34 of 1906) and deposits may become invalid.

IV-2 Financial Service Intermediary Liability Insurance Contract

Affairs related to a financial service intermediary liability insurance contract shall be performed as stated below.

IV-2-1 Financial Service Intermediary Liability Insurance Contract in Lieu of Part of Security Deposits

A substitution of part of security deposits by a financial service intermediary liability insurance contract as provided for by Article 23(1) of the Act on the Provision of Financial Services (hereinafter referred to as the “liability insurance contract”) shall be handled as stated below.

- (1) When concluding a liability insurance contract provided for by Article 23(1) of the Act on the Provision of Financial Services and making a notification related to conclusion of the contract pursuant to the provisions of Article 26(1)(v) of the Cabinet Office Order on Financial Service Intermediaries, a financial service intermediary shall submit written notification of the conclusion of a liability insurance contract that is prepared in accordance with Appended Form IV-13, along with the document specified in paragraph (2)(iii) of the same Article to the director-general of the local finance bureau, etc.; provided, however, that when filing an application for approval of substituting part of security deposits pursuant to the provisions of Article 32(1) of the Cabinet Office Order on Financial Service Intermediaries at the same time as said notification, it is not required to submit said written notification.
- (2) When intending to obtain approval for substituting part of security deposits under a liability insurance contract pursuant to Article 23(1) of the Act on the Provision of Financial Services, a financial service intermediary shall submit a written application for approval that is created in accordance with Appended Form IV-14 along with a document related to the substitution of part of security deposits pursuant to the liability insurance contract to the director-general of the local finance bureau, etc.
- (3) Content of public notice of the Financial Service Agency No. 30 of 2021
 - (i) The expression “when it is found to be a case that would not impair the protection of customers, etc.” as specified in the main paragraph of Article 2 of the public notice of the Financial Service Agency No. 30 of 2021 refers to cases where the period for concluding a liability insurance contract from when the financial service intermediary began its operations does not exceed 3 years and the liability insurance contract has special provisions on covering prior acts for said period.
 - (ii) The expression “existence, etc. of obligations to customers, etc.” as specified in Article 2(v) of the public notice of the Financial Service Agency No. 30 of 2021 includes the following:
 - (A) Obligations to customers, etc. due to unlawful acts of a financial service intermediary.
 - (B) Lawsuits related to obligations to customers, etc. of a financial service intermediary that are in dispute before a court.
 - (C) The number of complaints, the details thereof, and details of solutions, including all complaints to the director-general of the local finance bureau, etc., complaints stated in a business report, and complaints

to a group of which the financial service intermediary is a member.

- (4) When the director-general of the local finance bureau, etc. approves the substitution of part of security deposits under a liability insurance contract pursuant to Article 23(1) of the Act on the Provision of Financial Services, the director-general of the local finance bureau, etc. shall deliver or provide written approval prepared in accordance with Appended Form IV-15 to the applicant.
- (5) The amount of security deposits that a financial service intermediary may refrain from depositing pursuant to the provisions of Article 23(1) of the Act on the Provision of Financial Services is subject to Article 29(2) of the Order for Enforcement of the Act on the Provision of Financial Services or is limited to the amount that is specified as the limit amount for indemnity of loss due to the predetermined reasons attributable to an identical act under said liability insurance contract.

IV-2-2 Cancellation or Modification of Liability Insurance Contract

Cancellation or change of a liability insurance contract pursuant to the provisions of Article 29(1)(iv) of the Act on the Provision of Financial Services shall be handled as stated below.

- (1) When canceling a liability insurance contract or changing the content thereof, the financial service intermediary shall submit a written application for approval that is prepared in accordance with Appended Form IV-16 along with a document stating the existence of allowances required for said cancellation of the contract or change of the content thereof to the director-general of the local finance bureau, etc.
- (2) When the director-general of the local finance bureau, etc. approves cancellation or change of a liability insurance contract, the director-general of the local finance bureau, etc. shall deliver or provide a written approval for cancellation of the liability insurance contract that is prepared in accordance with Appended Form IV-17 or a written approval for change of a liability insurance contract that is prepared in accordance with Appended Form IV-18 to an applicant.
- (3) When a liability insurance contract is canceled or the content thereof is changed based on the approval of the director-general of the local finance bureau, etc., a financial service intermediary shall submit the written notification that is created in accordance with Appended Form IV-19 along with a document specified in Article 26(2)(iii) of the Cabinet Office Order on Financial Service Intermediaries to the director-general of the local finance bureau, etc.

V Supervisory Evaluation Points and Various Administrative Procedures (Deposits, etc. Intermediary Business Operations)

V-1 Suitability of Operations (Deposits, etc. Intermediary Business Operations)

V-1-1 Prohibited Acts, and Inappropriate Transactions Pertaining to Deposit, etc. Intermediary Business

(1) Wrongful use of an advantageous position in a transaction as a deposit, etc. service intermediary (Article 55(iii) of the Cabinet Office Order on Financial Service Intermediaries)

Supervision of wrongful use of an advantageous position in a transaction as a deposit, etc. service intermediary must be conducted with due consideration of “Regarding Unfair Trading Practices Following Loosening of Financial Institutions’ Business Categories and Expansion of Business Scope,” a document issued on December 1, 2004, by the Fair Trade Commission. For example, the following practices may constitute a wrongful use of an advantageous position in a transaction as a deposit, etc. service intermediary ((i) and (ii) of the following practices may also constitute “wrongfully acting as an intermediary in the conclusion of a contract as prescribed in one of the items of Article 11(2) of the Act on the Provision of Financial Services on the condition that the customer effects a transaction with the deposit, etc. service intermediary or a business operator it designates” provided in Article 55(ii) of the Cabinet Office Order on Financial Service Intermediaries).

- (i) The deposit, etc. service intermediary effectively forces customers to purchase products in which it deals in its concurrent business operations or financial service intermediary business operations (meaning types of business operations other than the deposit, etc. intermediary business operations) by implying that it will stop acting as an intermediary in the contract on the lending of funds (including other acts set forth in the items of Article 11(2) of the Act on the Provision of Financial Services; the same will apply in the following (ii) to (iv)) or give unfavorable treatment to intermediary services it provides in the contract on the lending of funds unless they make transactions with the deposit, etc. service intermediary regarding its concurrent business operations or financial service intermediary business operations (meaning types of business operations other than the deposit, etc. intermediary business operations).
- (ii) The deposit, etc. service intermediary requests, and effectively forces customers to purchase products in which it deals in its concurrent business operations or financial service intermediary business operations (meaning types of business operations other than the deposit, etc. intermediary business operations) when it acts as an intermediary in the contract on the lending of funds to customers.
- (iii) In cases where customers intend to sign contracts with a competitor who conducts the same business in which the deposit, etc. service intermediary engages as its concurrent business operations or financial service intermediary business operations (meaning types of business operations other than the deposit, etc. intermediary business operations), the deposit, etc. service intermediary prevents customers from purchasing the products by the competitors in its concurrent business operations or financial service

intermediary business operations (meaning types of business operations other than the deposit, etc. intermediary business operations) by implying that it will stop acting as an intermediary in the contract on the lending of funds or give unfavorable treatment to intermediary services it provides in the contract on the lending of funds.

(iv) The deposit, etc. service intermediary requests, and effectively forces customers not to purchase products by the competitors in its concurrent business operations or financial service intermediary business operations (meaning types of business operations other than the deposit, etc. intermediary business operations) when it acts as an intermediary in the contract on the lending of funds to customers.

(2) Wrongful use of an advantageous position in a transaction based on concurrent business operations (Article 55(v) of the Cabinet Office Order on Financial Service Intermediaries)

Supervision of wrongful use of an advantageous position in a transaction in concurrent business operations must be conducted with due consideration of “Regarding Unfair Trading Practices Following Loosening of Financial Institutions’ Business Categories and Expansion of Business Scope,” a document issued on December 1, 2004, by the Fair Trade Commission. For example, the practices set forth as follows may constitute a wrongful use of an advantageous position in a transaction in concurrent business operations ((i) and (ii) of these practices may also constitute “wrongfully having the customer effect a transaction with itself or a person doing business it designates on the condition that it acts as an intermediary in the conclusion of a contract as prescribed in the items of Article 11(2) of the Act on the Provision of Financial Services” provided in Article 55(iv) of the Cabinet Office Order on Financial Service Intermediaries).

(i) A deposit, etc. service intermediary suggests to a customer that transactions related to a concurrent business will be discontinued or the customer will be treated disadvantageously in relation to the concurrent business if the customer fails to conclude a contract for the acceptance of deposits that the deposit, etc. service intermediary intermediates as deposit, etc. intermediary business operations (the same applies to the acts listed in the items of Article 11(2) of the Act on the Provision of Financial Services; the same applies hereinafter in (ii) through (iv)) and substantially forces the customer to conclude a contract for the acceptance of deposits.

(ii) When conducting a transaction for a concurrent business with a customer, a deposit, etc. service intermediary requests that the customer conclude a contract for the acceptance of deposits that the deposit, etc. service intermediary mediates as deposits, etc. intermediary business operations and substantially forces that the customer to follow the request.

(iii) A deposit, etc. service intermediary suggests to a customer that transactions related to a concurrent business will be discontinued or the customer will be treated disadvantageously in relation to the concurrent business when the customer trades with a competitor in operations to be performed as those related to deposits, etc.

intermediary business operations, and prevents the customer from concluding a contract for the acceptance of deposits with its competitor (including a bank and a bank agent; the same applies in (iv)).

(iv) When conducting a transaction for a concurrent business with a customer, a deposit, etc. service intermediary requests that the customer does not conclude a contract for the acceptance of deposits with its competitor and substantially forces the customer to follow the request.

(3) With regard to a control environment that prevents prohibited acts as prescribed in Article 52-45 of the Banking Act applied *mutatis mutandis* pursuant to Article 29 of the Act on the Prohibition of Financial Services (hereinafter referred to as the “Banking Act as applied *mutatis mutandis*”) and the items of Article 55 of the Cabinet Office Order on Financial Service Intermediaries, attention should be paid to the points listed below.

(i) Whether the deposit, etc. service intermediary establishes a division or appoints a person responsible for implementing measures for preventing prohibited acts. Also, whether the deposit, etc. service intermediary develops a control environment for examining whether such division or person has properly implemented measures for preventing prohibited acts.

(ii) Whether the deposit, etc. service intermediary establishes internal rules on a system for implementing training required to prevent prohibited acts and a system for dealing with complaints from customers and disseminates these rules within the organization.

(iii) In order to prevent prohibited acts, whether the deposit, etc. service intermediary conducts training, on a regular and as-needed basis, by a person who has knowledge and practical experience of laws and regulations pertaining to deposit, etc. intermediary business operations.

(iv) Whether the deposit, etc. service intermediary establishes a control environment for responding to complaints, such as specifying the contact point for customer complaints regarding prohibited acts, establishing a division in charge of processing complaints and prescribing procedures for processing complaints.

(4) Prevention of intermediations leading to inappropriate transactions against ordinary transaction practice

In addition to (1) through (3) above, attention must be paid to the way to prevent an intermediation that may lead to inappropriate transactions against ordinary transaction practice, such as acceptance of excessive deposits for cooperation and excessive compensating deposits, etc., excessive introduction of deposits to other financial institutions, custody of a customer’s seal, etc., and other abuses of an advantageous position that becomes a problem under the Anti-Monopoly Act and a request for short-period credit transactions covering two accounting periods that is not based on actual funding needs, etc. of the customer.

V-1-2 Provision of Information and Consultation Function for Protection of Users

Based on Article 26 of the Act on the Provision of Financial Services, Article 52-44(2) of the Banking Act as applied mutatis mutandis and Article 48 to 55 of the Cabinet Office Order on Financial Service Intermediaries, supervisory measures regarding the deposit, etc. service intermediary's provision of information and consultation function, etc. for protection of users should be taken while taking note of the following points.

V-1-2-1 Customer Explanation Concerning Credit Transactions, etc. (loan contracts, and related collateral and guarantee contracts)

V-1-2-1-1 Purpose and Significance

(1) Article 26 of the Act on the Provision of Financial Services and Article 35 of the Cabinet Office Order on Financial Service Intermediaries obligate a deposit, etc. service intermediary to, in accordance with the content and method of its business operations, stipulate internal regulations, etc. (which means internal regulations and those equivalent) concerning measures in order to provide customers with explanations of material matters in consideration of the customers' knowledge, experience, status of assets, and purposes of transaction, and other measures in order to secure sound and appropriate business management (including explanation of financial instruments, transactions, and their risks by delivery of documents and other appropriate methods, and measures to prevent crime) and develop a sufficient system to manage its business operations based on training for employees and the abovementioned internal regulations, etc.

In addition, a deposit, etc. service intermediary is prohibited from carrying out acts of providing false information to a customer, acts of providing a customer with any conclusive judgment with respect to an uncertain matter, or acts of giving information that is likely to have a customer mistakenly believe an uncertain matter to be certain, etc. with respect to its deposit, etc. intermediary business operations (Article 52 of the Banking Act as applied mutatis mutandis and Article 53 of the Cabinet Office Order on Financial Service Intermediaries). These acts are prohibited as acts violating measures to secure sound and appropriate business management of a deposit, etc. service intermediary provided for in Article 26 of the Act on the Provision of Financial Services.

(2) The following categorizes and exemplifies the viewpoints when the FSA inspects relevant internal control environments of deposit, etc. service intermediaries with respect to customer explanation for credit transactions, etc. (loan contracts, and related collateral and guarantee contracts) and the consultation and complaint handling function to supplement it by focusing on their transactions with SMEs, and loans to individuals (including housing loans).

(Note) The following will apply to a broad range of deposit, etc. service intermediaries' customer relations covering their efforts in promoting accountability as well as those in expanding information sharing and improving mutual understanding with customers.

V-1-2-1-2 Major Supervisory Viewpoints

(1) Establishment of bank wide internal control environment

(i) Has the board of directors exercised its functions properly with regard to the establishment of the deposit, etc. service intermediary-wide internal control environment relating to customer explanation and the consultation and complaint processing function?

(ii) Formulation of internal regulations based on the purposes of applicable laws and regulations

(A) Whether internal regulations, etc. clearly stipulate the control environment for customer explanation according to the content and manner of each business operation.

There are various types of credit transactions, including discounting of bills and notes, loans (loans on bills, loans on deeds, overdraft), etc.. Whether the deposit, etc. service intermediary has developed a control environment suitable to each type thereof.

In addition, whether the control environment is designed to cope with various transaction types including internet transactions, etc.

(B) Whether the internal regulations, etc. clearly provide for the control environment for customer explanation according to the customers' knowledge, experience, status of assets, and purpose of transaction. In particular, whether it is designed to handle SMEs and individual customers according to their actual status.

(iii) Establishment of implementation system based on the purposes of laws and regulations

(A) Whether training and other measures (including the distribution of manuals and so forth) are in place to ensure the businesses are being operated based on the internal regulations, etc.

(B) Whether the internal check-and-balance functions such as inspection, audit, etc. are properly working to ensure the effectiveness of customer explanation, etc.

(2) Explanation when entering a contract

The FSA will inspect whether, with respect to the following, the deposit, etc. service intermediary has formulated appropriate internal regulations, etc. and has established a system sufficient to operate its businesses based thereon including holding training for its employees, etc.; in this case, appropriately taking into account role sharing on the provision and explanation of information to customers between a deposit, etc. service intermediary and a bank, etc., with which the customer intends to conclude a contract, the FSA shall give consideration so that they are not handled in a mechanical and stereotypical manner.

(i) Explanation of the content and risks, etc. of products or transactions.

Whether necessary information is appropriately provided with the aim of obtaining sufficient customer understanding in order to form the intention to conclude a contract.

Special attention must be paid to the following points for the inspection:

- (A) Whether it is determined to provide information appropriately and explain risks, etc. to users when intermediating a housing loan contract. In particular, whether it is determined to give a sufficient explanation of interest-rate fluctuation risks, etc. related to variable rate or fixed term and fixed rate housing loans.
- (B) When explaining a housing loan, for example, whether a system has been established to take action in accordance with “Explanation of Interest-rate Risks, etc. to Housing Loan Users” (Agreement of the Japanese Bankers Association as of December 21, 2004). In addition, in cases of presenting a guide for repayment amounts if the applicable interest increases in the future, whether it is determined to present an estimation based on assumption considered to be reasonable under the economic situation at that time.
- (C) Concerning an individual guarantee contract, whether it is determined to give sufficient explanations not only for forming an intention related to bearing guarantee obligations, but also for forming an intention to accept that the loan user bears liabilities when the guarantee obligations are exercised.
- For example, whether it is determined to explain the legal effects and risks of a guarantee in addition to the formal content of the guarantee contract based on assumption of the worst case, which means the situation where the guarantee obligation actually has to be performed.
- In addition, whether it is determined to confirm that a guarantor received an explanation, as necessary.
- (D) In cases of intermediating the conclusion of a guarantee contract between the management, etc. and a bank, etc., whether it is determined to give a careful and concrete explanation to the principal obligor and guarantor of the following points based on the “Guidelines for Personal Guarantee Provided by Business Owners.”
- a. Necessity of a guarantee contract
 - b. A request for performance at the time of performing the guarantee is not conducted uniformly for the full amount of the guarantee, but the range of performance is determined in consideration of the guarantor’s asset status at the time of performing the guarantee in principle.
 - c. If the personal guarantee provided by the business owner is no longer necessary, there is the possibility of revision, such as change, cancellation, etc. of the guarantee contract.
- (E) Concerning a joint and several guarantee contract, whether it is determined to give an explanation of the fact that it has a different nature than a regular guarantee contract, such as that there are no supplements or benefits of allocation, based on the knowledge, experience, etc. of the other party.
- (Note 1) The term “supplements” refers to a nature where the obligation may be performed only after the principal obligor fails to perform the obligation.
- (Note 2) The term “benefits of allocation” refers to the nature where if there are multiple guarantors, each guarantor only needs to guarantee the part of the amount of obligation that is equally divided between all guarantors (portion of obligation).
- (F) When intermediating the conclusion of an individual joint and several guarantee contract between a third party other than the management and a bank, etc., whether it is determined to pay attention to the degree

of the contractors' involvement in business and to give special explanations of the possibility of leading to a situation where the guarantee obligation must be performed even if the contractor is not substantially involved in its business. In addition, whether it is determined to confirm that the guarantor received an explanation, as necessary.

(Note) If a contractor voluntarily offers to conclude a joint and several guarantee contract although the contractor is not substantially involved in business, attention must be paid to whether it is confirmed that the contract is not required by a financial institution by receiving a document proving that the contractor offered it based on his/her voluntary intention after receiving a special explanation from a bank, etc. or a deposit, etc. service intermediary.

(G) Concerning a loan guaranteed by a credit guarantee corporation, whether it is determined to give an appropriate explanation of the content of the guarantee system to be used and the rate of credit guarantee fees, depending on the knowledge, experience, etc. of the customer.

(ii) Explanation of objective and reasonable grounds for the conclusion of a contract

At the customer's request for an explanation, whether a system is established to give an explanation as well of the objective and reasonable grounds for conclusion of a contract for which a deposit, etc. service intermediary serves as an intermediary for the purpose of obtaining the customer's understanding and consent depending on the knowledge, experience, etc. of the customer in order to prevent a conflict, etc. ex post facto.

In addition, concerning the inspection of (A) through (C) below, attention must be paid to whether a system has been established to give an explanation of the matters listed in the following items at the request of the customer (in cases of the inspection of (C), a system to give an explanation when concluding a guarantee contract).

(A) Loan contract

Loan amounts, interest rates, repayment conditions, circumstances for loss of benefit of time, financial covenants, etc. and other content of the contract, and objective and reasonable grounds for the conclusion of a contract in consideration of the customer's property status.

(B) Security establishment contract

The content of the contract, such as the maximum amount, etc., current transaction status and future transaction estimates with the obligor, and objective and reasonable grounds for the conclusion of a contract in consideration of the property status of the security provider.

(C) Guarantee contract

Objective and reasonable grounds for the conclusion of a guarantee contract between the guarantor and a bank, etc. in consideration of the guarantor's position and property status, the relationship with the principal obligor and other guarantors, etc.

a. Concerning a revolving guarantee contract, the maximum amount and principal capitalization date to

be set, current transaction status and future transaction estimates with the obligor, and objective and reasonable grounds for the conclusion of a contract in consideration of guarantor's property status.

- b. In cases of concluding an individual joint and several guarantee contract with a third party other than the management, in light of the perspective of "establishing a loan practice not requesting an individual joint and several guarantee of a third party other than the management in principle," while paying attention to the idea of "Prohibition of requesting a third party guarantor in principle in the credit guarantee corporation," objective and reasonable grounds for the conclusion of a guarantee contract between the third party and a bank, etc.
- c. In cases of requesting a guarantee from the management, etc., objective and reasonable grounds for the conclusion of a guarantee contract between the management, etc. and a bank, etc. based on the "Guidelines for Personal Guarantee Provided by Business Owners."

(iii) Confirming the intention to conclude a contract

(A) Whether it is determined to be a principle to request a record of consent on the content of the contract from a contractor (note) after giving an explanation of the content of the contract and confirming that the contractor has the intention to borrow money, intention to provide securities, and intention to guarantee. In particular, when confirming an intention to guarantee, whether it is determined to confirm the degree of the contractor's involvement with business as well.

(Note) In cases of concluding an important contract with a small and medium-sized enterprise, etc. under a so-called "owner-run company," it is necessary to pay attention to the fact that there are cases where it is insufficient to obtain consent from a formal authorized person alone.

(B) Concerning actions related to confirming a contractor's intention to borrow, intention to provide securities, and intention to guarantee as set forth in (A) above, whether the handling method is defined in internal rules, etc. after implementing a full examination from the perspective of customer protection and compliance with laws and regulations, etc. and a highly effective internal check function for compliance is established.

(C) Whether a system is established to prevent giving inappropriate explanations that may mislead the customer to think that the loan is ensured before a bank, etc. determines to provide a loan.

(3) Consistency with bank's basic loan management policy (credit policy)

It is also necessary to inspect whether control environment for customer explanation on credit transactions of each bank, etc. is consistent with its basic loan management policy (credit policy, etc.).

For this, the FSA will pay attention to the viewpoints, for example, of establishing a sound loan practice and promoting loans without excessive dependence on collateral or guarantee as follows.

Deposit, etc. service intermediaries should recognize that sound loan practice does not excessively depend on collateral or guarantee and that they must offer loans by comprehensively judging a debtor's management

situation, use of funds, and the probability of collection. From the viewpoints of banks, etc. of “promoting a loan that does not excessively depend on collateral or guarantee by putting more emphasis on cash flow from the business operation,” “further promoting a loan that does not rely on the business owner's guarantee” (see III-9-2 of the Comprehensive Guidelines for Supervision of Major Banks, etc.) and “establishing a loan practice that makes it a rule not to require a personal joint and several guarantee from a third party other than the business owner” (see III-10 of the Comprehensive Guidelines for Supervision of Major Banks, etc.), the FSA will inspect how the deposit, etc. service intermediary has reflected the policy established by banks, etc. in its actual customer explanation.

(4) Enhancement and reinforcement of complaint handling function

(i) Whether the deposit, etc. service intermediary accumulates and analyzes complaints, etc. received from customers and considers measures to improve customer explanation when intermediating the conclusion of a contract. Whether the deposit, etc. service intermediary considers whether it should continue to intermediate the sale or offering of products or transactions for which it receives many complaints from customers.

In addition, whether the deposit, etc. service intermediary checks complaints concerning products and transactions sold or made through its intermediation after measures to improve customer explanation were taken and validates the effects of such measures.

For this inspection, in particular, attention should be paid to the effectiveness of the complaint handling system relating to III-2-9-1 (Establishment of Internal Control Environment for Handling Complaints).

(ii) With regard to the inspection of serious complaints including alleged abuse of superior position, etc., the deposit, etc. service intermediary should take proper measures, for example, whereby a person in charge of the inspection at the headquarters or in the relevant inspection division, etc. directly interviews the person who made the complaint as needed without simply believing the content of a report made by the sales person who triggered the complaint, from the viewpoint of securing objectivity and appropriateness of the inspection. Whether the deposit, etc. service intermediary has developed such a control environment.

(iii) Whether the deposit, etc. service intermediary has introduced a proper control environment to cope with violence intervening in civil affairs, such as refusal of any connection with anti-social forces.

V-1-2-1-3 Supervisory Methods and Measures

Whether the control environment relating to customer explanation and the consultation and complaint handling function to supplement it have been developed and operated relates to the base of the deposit, etc. service intermediary's sound and appropriate business operation, as well as to the viewpoints of customer protection and user convenience. Therefore, associated internal control environments need to be highly effective.

Concerning problems related to the internal management system of a deposit, etc. service intermediary that are

identified through daily supervision and notifications of problematic conduct, etc., the FSA shall identify the voluntary business improvement status of a deposit, etc. service intermediary by conducting in-depth interviews and requesting reports based on the provisions of Article 35(1) of the Act on the Provision of Financial Services as necessary. In addition, if it is found that there is a major problem from the perspective of securing the sound and appropriate operation of the financial service intermediary business or customer protection (for example, in cases where it is confirmed that a deposit, etc. service intermediary is against the purport of laws and regulations and failed to prepare major internal rules, etc. or gave false explanations to customers), the FSA shall take action, such as issuing a business improvement order based on the provisions of Article 37 of the Act on the Provision of Financial Services. Furthermore, if a serious and malicious act violating laws and regulations, etc. is found, the FSA shall examine the actions necessary, including the issuance of an order to suspend businesses based on the provisions of Article 38(1) of the Act on the Provision of Financial Services.

V-1-2-2 Sales and Customer Explanation for Deposit and Risk-Associated Products, etc.

V-1-2-2-1 Purpose and Significance

A deposit, etc. service intermediary must provide information on the details of deposit, etc. to depositors when conducting deposit, etc. intermediary business operations (Article 25 of the Act on the Provision of Financial Services, Articles 52-44(2) of the Banking Act as applied mutatis mutandis, and Article 49 of the Cabinet Office Order on Financial Service Intermediaries). In particular, a deposit, etc. service intermediary, when handling the financial instruments listed in Article 50(1) of the Cabinet Office Order on Financial Service Intermediaries, must provide an explanation to customers in order to prevent customers from misidentifying the financial instruments with deposits, etc. In addition, a deposit, etc. service intermediary, in accordance with the content and method of its business operations, must stipulate internal regulations, etc. concerning measures in order to secure sound and appropriate business management and must develop a sufficient system to manage its business operations in accordance with said internal regulations, etc. (Articles 26 of the Act on the Provision of Financial Services and Articles 35 of the Cabinet Office Order on Financial Service Intermediaries).

In selling risk-associated products, a deposit, etc. service intermediary must develop the abovementioned control environments in consideration of not only the Act on the Provision of Financial Services but also other applicable laws and regulations including, but not limited to, the Financial Instruments and Exchange Act.

Particularly, with regard to deposits or installment savings, etc. that carry the risk of loss of the principal due to fluctuations in the interest rate, value of currencies, market price of a financial instruments market, or other indices (hereinafter referred to as “specified deposits, etc.”), it should be noted that the provisions of the Financial Instruments and Exchange Act apply mutatis mutandis to them and that they are subject to the obligation to deliver pre-contract documents, restriction of advertisement, etc. (Article 31(2) of the Act on the Provision of Financial Services and Articles 48, 66 to 90, 92, 93, 100, 106, and 110 of the Cabinet Office Order on Financial Service

Intermediaries)

V-1-2-2-2 Major Supervisory Viewpoints

From these perspectives, the FSA will inspect as to whether the following control environments are put in place. In this case, appropriately taking into account roles sharing on the provision and explanation of information to customers between a deposit, etc. service intermediary and a bank, etc. with which the customer intend to conclude a contract, the FSA shall give consideration so that it is not handled in a mechanical and stereotypical manner.

(1) Establishment of deposit, etc. service intermediary-wide internal control environment

(i) Has the board of directors exercised its functions properly with regard to the establishment of the deposit, etc. service intermediary-wide internal control environment relating to customer explanation?

(ii) Formulation of internal regulations based on the purposes of applicable laws and regulations

(A) Do internal regulations, etc. clearly stipulate the control environment for customer explanation according to the content and manner of each business operation?

In particular, when handling risk-associated products, such as specified deposits and investment trusts, etc. has the deposit, etc. service intermediary prepared a control environment according to each characteristic of these products?

In addition, is the control environment designed to cope with various transaction types including internet transaction, etc.?

(B) Do the internal regulations, etc. clearly provide for the control environment for customer explanation according to the customer's knowledge, experience, status of assets, and purposes of transaction?

(iii) Establishment of an internal implementation system based on the purposes of laws and regulations

(A) Are training and other measures (including the distribution of manuals and so forth) in place to ensure the businesses are being operated based on the internal regulations, etc.?

(B) Are the internal check-and-balance functions such as inspection, audit, etc. properly working to ensure the effectiveness of customer explanation, etc.?

(C) Does the deposit, etc. service intermediary review its sales system for financial instruments based on the verification of the effectiveness of its customer explanation, etc.?

(iv) Actions based on the Act on the Provision of Financial Services

Are the explanation methods and the content thereof in selling financial instruments to customers appropriate from the standpoints of Article 26 of the Act on the Provision of Financial Services, and Articles 33 and 50 of the Cabinet Office Order on Financial Service Intermediaries, and other applicable laws? In addition, does the deposit, etc. service intermediary make efforts to establish a control environment for customer explanation to secure proper solicitation considering the purpose of the obligations to establish

and publicize the solicitation policy under the Act on the Provision of Financial Services?

(v) Prevention of explanation falsely recognized as anti-fair trade practice

When developing a control environment for preventing abuse of superior position, deposit, etc. service intermediaries must take into consideration a possibility that customers might have concerns that “proposed transaction may have impact on the future loan arrangement.” Based on such assumption, has the deposit, etc. service intermediary developed a control environment to prevent any explanation that may be falsely recognized as abuse of superior position?

(2) Acceptance of deposits, etc. (excluding acceptance of specified deposits, etc.)

Base on the purposes of Article 26 of the Act on the Provision of Financial Services and Article 49 of the Cabinet Office Order on Financial Service Intermediaries, with regard to the acceptance of deposits, etc., has the deposit, etc. service intermediary developed an environment to provide information with regard to the acceptance of deposits, etc. and to give proper explanation of products information as required by the depositors? For example, the following points should be noted.

- For a variable interest rate deposit for which the criteria and method of setting the interest rate are predetermined, is a control environment in place to provide depositors with information on these criteria and the interest rate?

(3) Acceptance of specified deposits, etc.

Considering that restriction on acts under the Financial Instruments and Exchange Act applies to specified deposits, etc. mutatis mutandis, for specific supervisory viewpoints of specified deposits, etc., refer to III-2-6, VII-1-3, VII-1-4(1)(i), VII-1-4(1)(ii), VII-1-4(1)(iii), VII-1-4(1)(iv), and VII-1-4(1)(v), etc.

In particular, attention should be paid to whether there is a system in place to give detailed explanations that the value of the financial instruments could fall below the principal amount due to fluctuations in values of currencies.

For example, has the deposit, etc. service intermediary explained the following matters by delivering pre-contract documents?

- (A) If, at the time of premature cancellation, there is a possibility that the amount of the deposits could fall below the principal amount due to the penalty, etc. on cancellation, how to calculate the penalty, etc. on cancellation (including the estimated amount of the penalty, etc. on cancellation on the assumption deemed reasonable in the economic situation at the time of giving an explanation)
- (B) For specified deposits, etc. denominated in a foreign currency whose value may fall below the principal amount, that fact and the reasons therefor

V-1-2-2-3 Supervisory Methods and Measures

(1) Control environments for sale and customer explanation of risk-associated products should be secured through business operation in compliance with the related laws and regulations such as the Financial Instruments and Exchange Act. In cases where the FSA feels, from follow-up of the notice of inspection results, receipt of the accident notifications, analysis of consultation and complaints, etc., any doubt in a deposit, etc. service intermediary's control to secure its business operations in compliance with the related laws and regulation, etc. or the effectiveness of its sale and customer explanation, etc. of risk-associated products, any possibility that the deposit, etc. service intermediary conducts a prohibited act such as misleading representation to customers, the FSA will hold an in-depth interview with the deposit, etc. service intermediary in light of relevant laws and regulations with regard to the causes and improvement measures, etc. and encourage the deposit, etc. service intermediary to make steady improvement, by requiring reports based on related laws as well as reports under Article 35(1) of the Act on the Provision of Financial Services, as needed.

If it is found that the bank has a serious problem, the FSA will issue a business improvement order pursuant to Article 26 of the Banking Act together with those based on relevant laws and regulations.

(2) In addition, as a result of the inspection, in cases where a material violation of laws is detected, including cases where it is found that the management of the deposit, etc. service intermediary failed to formulate important internal regulations, etc. against the purpose of laws as described in V-1-2-2-1 or where it is recognized that the deposit, etc. service intermediary gave a false explanation to customers, attention should be paid to the necessity to consider taking administrative dispositions based on Article 38 of the Act on the Provision of Financial Services (for example, suspension of a part of the business operations until the deposit, etc. service intermediary prepares a sufficient system therefor by preparing internal regulations, etc.)

V-1-2-3 Other Considerations Related to Explanation System

The supervision related to the provision of information and the consultation functions of a deposit, etc. service intermediary for user protection should be performed in consideration of (1) through (3) below in addition to V-1-2-1 and V-1-2-2.

(1) Control environment for preventing explanation that might be falsely recognized as abuse of superior position

If a deposit, etc. service intermediary concurrently engages in other businesses, confirmation should be made as to whether the deposit, etc. service intermediary has developed a control environment that prevents the provision of explanations that could be mistaken as an abuse of a superior bargaining position banned under the Antimonopoly Act upon conducting deposit, etc. intermediary business operations and concurrent business

operations; it is necessary to note that, for example, activities listed in V-1-1(1) and V-2-3-2(4) can be those which correspond to an abuse of a superior bargaining position.

(2) System for prevention of misrecognition of financial products as deposits (Article 50 of the Cabinet Office Order on Financial Service Intermediaries)

If a deposit, etc. service intermediary sells financial instruments or acts as an intermediary, it should be noted that the deposit, etc. service intermediary needs to develop a control environment for preventing misrecognition of financial products as deposits.

(3) Management of customer information

(i) Customer information should be basically managed in accordance with III-2-2. If a deposit, etc. service intermediary concurrently engages in other businesses, the deposit, etc. service intermediary should pay attention to whether it has developed methods and systems for properly managing customer information (including establishing internal rules regarding separation of organizations and persons in charge, installation of information barriers in terms of equipment and systems, blockade of information, conducting employee education and training, etc.) in order to prevent the customer information obtained through its deposit, etc. intermediary business operations from being used for its concurrent business operations without the customer's prior consent.

(ii) As for the customer's prior consent, particularly, with regard to treatment of non-public financial information and non-public information (note that information on customer attributes (name, residential address, telephone number, sex, birthdate and occupation) is personal information, but is not included in non-public financial information and non-public information), it is necessary to confirm whether the deposit, etc. service intermediary has taken measures in order to obtain the customer's prior consent (described in Article 55(vii) of the Cabinet Office Order on Financial Service Intermediaries), for example, in the following appropriate methods.

(A) Face-to-face contact

Method of giving a prior explanation in writing to and obtaining prior consent in writing from the customer before the customer makes an application for a contract

(B) Mail

Method of sending a prior written explanation and obtaining a written reply showing the customer's consent before informing the bank, etc. of the conclusion of the contract

(C) Telephone

Method of giving a prior oral explanation, then promptly sending the written document describing the given explanation (the document can be delivered directly to the customer in the case of having face-to-face contact with the customer after obtaining the customer's consent by telephone) and obtaining

the customer's consent in writing before the customer makes an application for a contract

(D)The internet, etc.

Method of giving a prior explanation by electronic or magnetic means, and obtaining the customer's consent by electronic or magnetic means

V-2 Administrative Procedures (Deposit, etc. Intermediary Business Operations)

V-2-1 Administration Related to Applications for Registration

V-2-1-1 Points to Note in Applications for Registration

V-2-1-1-1 Necessity of Registration

(1) Criteria for necessity of registration

The necessity of registration needs to be determined comprehensively in consideration of the position of an act among a series of acts towards the establishment of a contract for the acceptance of deposits, etc., loan of funds, discounting bills and notes, or exchange transactions (hereinafter collectively referred to as a “contract for the acceptance of deposits, etc.”). Attention must be paid to the fact that it is not appropriate to determine immediately that the registration is not necessary by extracting only part from a series of acts.

(2) When registration is necessary.

For example, a person who engages in any one of the acts listed in (i) through (iii) below as its business must pay attention to the fact that it is necessary to obtain registration of a financial service intermediary business as specified in Article 12 of the Act on the Provision of Financial Services in principle.

- (i) Solicitation of the conclusion of a contract for the acceptance of deposits, etc.
- (ii) Explaining products with the purpose of solicitation of the conclusion of a contract for the acceptance of deposits, etc.
- (iii) Negotiating conditions for the conclusion of a contract for the acceptance of deposits, etc.

(3) When registration is not necessary.

- (i) A person who intermediates a contract for the acceptance of deposits, etc. or exchange transactions for customers is not required to have registration as a financial service intermediary business.

However, for example, full attention must be paid to cases where even though it is stipulated that the person shall act for a customer under a contract or scheme agreed between a bank and the person, if the person substantially engages in an intermediary business for the bank by practically exceeding or going against the scope specified in the contract or the scheme, registration may be required.

(Note 1) Concerning the intermediation for conclusion of a contract for “loan of funds, discounting bills and notes,” attention must be paid to the point that even if a person acts for a customer, registration is required in principle.

(Note 2) The expression “for a customer” refers to helping the customer in favor of the customer for the convenience of the customer at the request of the customer.

- (ii) In cases of performing an act that is not intermediation based on the entrustment by a bank or a customer,

registration as a financial service intermediary business is not required.

For example, it is considered that there may be a case where the registration of financial service intermediary business is not necessary for a person who only accepts entrustment by a bank and performs only part of the administration of acts listed in (A) through (D) below.

(A) Only distribution, delivery, or provision of fliers and pamphlets of product information, contract application forms, etc.

(Note) In this case, it is allowed to communicate the name of the bank, contact information of the bank, or other information; however, attention must be paid to the fact that in cases of giving an explanation of how to enter information, etc. for materials to be distributed, delivered, or provided, as that may fall under intermediation.

In addition, it is only allowed to re-post the content of production information, etc. provided by a bank, etc. related to services mainly aiming to provide product information, such as a comparison site, etc. on the website of the deposit, etc. service intermediary; however, for example, attention must be paid in cases of establishing a design or algorithm structure to display the content of a product that the deposit, etc. service intermediary recommends, etc., as that may fall under intermediation.

(B) Receipt and collection of contract application forms and attachments thereto

(Note) In this case, attention must be paid to the fact that in cases of checking, etc. the details of descriptions in the contract application form by doing more than only receiving and collecting contract application forms or pointing out misdescriptions, omissions of descriptions, or omissions of attaching required documents, as that may fall under intermediation.

(C) Explanation of the general structure, use method, etc. of products of a bank, etc. to be handled at a financial instrument briefing

(D) Operations only to introduce customers to a bank, etc. without soliciting

(Note) The expression “introduce” above includes the following acts.

- a. Placing or posting advertising media in which a bank, etc. introduces itself, at the office of the deposit, etc. service intermediary.
- b. Giving an explanation of the relationship between the deposit, etc. service intermediary and the bank, etc. or details of the operations of the bank, etc.
- c. Only establishing a linkage to the website of a bank, etc. Negotiations and procedures for the conclusion of a financial service contract are implemented between the bank, etc. and the customer, and the deposit, etc. service intermediary shall not be involved in the conclusion of the contract.

(iii) Concerning an act only to establish an ATM alone in a business office or office based on the entrustment by a bank, in cases where the ATM falls under “unmanned equipment” as set forth in Article 35(1)(iv) of the Regulation for Enforcement of the Banking Act, registration as a financial service intermediary business is not necessary.

V-2-2 Attachments

(1) “Documents stating what is provided for by Cabinet Office Order as the details and method of the financial service intermediary business operations” (Article 13(2)(iii) of the Act on the Provision of Financial Services)

(i) Concerning a deposit, etc. service intermediary, whether the following matters are stated in the details and method of operations shall be checked.

(A) Category of a contract as provided for by items of Article 11(2) of the Act on the Provision of Financial Services that a deposit, etc. service intermediary handles (including the category of a deposit, category of a borrower, and use of funds borrowed)

(Note) The “category of a contract” as stated in (A) above shall be checked as to whether it is stated according to the following.

a. Whether the distinction of “category of a deposit,” such as current deposit, ordinary deposit, saving deposit, deposit at notice, or time deposit for yen and for foreign currency respectively, is stated.

b. Whether the distinction of “category of a borrower,” such as a consumer or a business operator, is stated.

c. As “use of funds borrowed,” in cases where the use is specified, whether the use (living expenses, funds for purchasing a house, funds for purchasing an automobile, education expenses, etc.) is stated and in cases where the use is not specified, whether that fact is stated.

(B) In cases where a financial service intermediary entrusts all or part of deposit, etc. intermediary business operations to a third party, that fact and the name of the person who accepted the entrustment of the deposit, etc. intermediary business operations.

(C) Implementation system of the financial service intermediary business

(Note) The “implementation system” as stated in (C) above includes the systems listed in the following items according to the classification of cases in each item, in addition to a system to prevent the acts listed in the items of Article 52-45 of the Banking Act as applied mutatis mutandis and other acts that may hinder appropriate and reliable acts of financial service intermediary business (limited to deposit, etc. intermediary business operations).

a. In cases of engaging in deposit, etc. intermediary business operations using a computer connected with electric telecommunication lines: A system to prevent customers from misidentifying the deposit, etc. service intermediary as another person.

b. In cases of engaging in concurrent business (meaning operations other than deposit, etc. intermediary business operations and operations incidental to the deposit, etc. intermediary business operations; the same applies hereinafter): A system for appropriately handling customer information that is obtained in relation to deposit, etc. intermediary business operations.

(2) “Documents defining the abilities sufficient for appropriately performing financial service intermediary business operations” (Article 12(iii) of the Cabinet Office Order on Financial Service Intermediaries)

(i) Concerning the “documents defining the abilities sufficient for appropriately performing financial service intermediary business operations,” III-3-1-3 (7) shall be referred to and whether the following matters are stated shall be checked.

(A) A person who has sufficient knowledge for deposit, etc. intermediary business operations to be performed, the method by which the person with the knowledge acquired the knowledge (if there is a document indicating that the person has the knowledge, including the document), and scheduled destination for assignment of the person.

(Note 1) The phrase, “sufficient knowledge for deposit, etc. intermediary business operations to be performed,” refers to the knowledge that is necessary for the sound and appropriate management of the business operations. For example, knowledge related to the practice of deposit, etc. intermediary business operations to be performed and knowledge related to laws and regulations, such as the Act on the Provision of Financial Services, Banking Act, Act on the Protection of Personal Information, Act on Prevention of Transfer of Criminal Proceeds, Foreign Exchange and Foreign Trade Act, etc. can be listed.

(Note 2) Whether a person who has sufficient knowledge for deposit, etc. intermediary business operations to be performed is assigned as “a person responsible for operations to ensure compliance with laws and regulations related to the deposit, etc. intermediary business operations to be performed” or “a supervising manager for supervising and managing to ensure compliance with laws and regulations, etc.” shall be checked.

(Note 3) The person who has sufficient knowledge for deposit, etc. intermediary business operations to be performed is required to have expert knowledge of laws and regulations, etc. as stated in (Note 1) above and attention must be paid to the fact that the following knowledge is also required.

a. In cases of being assigned as “a person responsible for operations to ensure compliance with laws and regulations related to the deposit, etc. intermediary business operations to be performed.”

Expert knowledge of the parts related to the deposit, etc. intermediary business operations among basic laws, such as the Civil Code, Commercial Code, Companies Act, Penal Code, etc.

b. In cases of being assigned as “a supervising manager for supervising and managing to ensure compliance with laws and regulations, etc.”

Expert knowledge of matters broadly related to compliance with laws and regulations, etc., in addition to the parts related to the deposit, etc. intermediary business operations among basic laws, such as Civil Code, Commercial Code, Companies Act, Penal Code, etc.

(Note 4) If the applicant is an individual (excluding a person who engages in deposit, etc. intermediary business operations at two or more business establishments; the same applies hereinafter),

attention must be paid to the fact that the knowledge stated in (Note 1) and (Note 3) above is required.

- (B) The career history of a person who has experience with the deposit, etc. intermediary business operations to be performed (if there is a document proving that the person has said experience, including the document) and scheduled destination for assignment of the person
- (ii) It shall be checked whether the career history of a person who has experience with deposit, etc. intermediary business operations to be performed includes statements necessary for accurately identifying the experience of the person, such as the name of company at which the person worked, the department, job title, date of assignment, tenure, operations under their responsibility, etc.

V-2-3 Points to Note in Registration Permission

V-2-3-1 Examination Related to Ability to Execute Businesses

The screening of “sufficient capacity to perform financial service intermediary business properly” as stated in Article 15(i)(p) of the Act on the Provision of Financial Services is implemented by reference to the registration application form and attachments, and other documents or data as necessary and in cooperation with the applicant by accepting an interview or submitting additional data as necessary.

- (1) Consideration in cases of performing intermediation of the conclusion of a contract for the acceptance of current deposit and acts listed in Article 11(2)(ii) of the Act on the Provision of Financial Services

(A) If an applicant is an individual (excluding a person who engages in financial service intermediary business at two or more offices) and performs a special deposit, etc. service intermediation (meaning intermediation of the conclusion of a contract for the acceptance of current deposits or acts listed in Article 11(2)(ii) of the Act on the Provision of Financial Services (excluding the act related to a loan contract with security of deposit, etc. or national government bonds of the customer that the bank accepted and the act that is not involved in the screening related to the conclusion of a regular loan contract for funding for a use other than business); hereinafter, the same applies in (A) and (B) below), whether the applicant is a person specified in (i) or (ii) below based on the categories of the details of the special deposit, etc. service intermediation as listed in said (i) and (ii) shall be confirmed.

(Note) “Regular loan agreement” refers to a loan agreement in which there is little room for the discretion of a loan officer because procedures such as judging whether or not to conclude the agreement and setting the conditions of the agreement are stylized.

This “regular loan agreement” includes a loan agreement pertaining to “standardized loan products” provided in V-2-3-2(1).

- (i) Intermediation of the conclusion of a contract for the acceptance of current deposits: A person who has

engaged in current deposit or fund lending services or a person who is found to have abilities equivalent or greater thereto and is found to be able to perform current deposit services appropriately.

(ii) Acts listed in Article 11(2)(ii) of the Act on the Provision of Financial Services: A person who has engaged in fund lending services or a person who is found to have abilities equivalent or greater thereto and is found to be able to perform said services appropriately.

(B) If the applicant is a corporation (including an individual who engages in deposit, etc. intermediary business operations at two or more offices), whether the person responsible for operations to secure compliance with laws and regulations, etc. related to the deposit, etc. intermediary business operations to be performed (limited to a person who has sufficient knowledge of the deposit, etc. intermediary business operations) is assigned to each business office or office for the deposit, etc. intermediary business operations (in cases where a department managing the deposit, etc. intermediary business operations of other secondary business offices, etc. is established at a business office or office other than its principal business office or office (hereinafter referred to as “secondary business office, etc.” in (B)), the secondary business office, etc. where the department is established) and whether the supervising manager for supervising and managing to ensure compliance with laws and regulations, etc. (limited to a person who has sufficient knowledge for the deposit, etc. intermediary business operations) is assigned to its principal business office or office (excluding cases where deposit, etc. intermediary business operations are not performed at the secondary business office, etc.) respectively are checked. However, in cases of performing a special deposit, etc. service intermediation, one or more of these persons responsible or of supervising managers each must be a person specified in the following (i) or (ii) based on the category of the details of the special deposit, etc. service intermediation listed in said (i) and (ii).

(i) Intermediation of conclusion of a contract for the acceptance of current deposits: A person who has engaged in current deposit or fund lending services or who is found to have abilities equivalent or better thereto, and is found to be able to appropriately perform current deposit services.

(ii) Acts listed in Article 11(2)(ii) of the Act on the Provision of Financial Services: A person who has engaged in fund lending services or who is found to have abilities equivalent or better thereto, and is found to be able to appropriately perform said services.

(2) A person who has engaged in the services of loaning of funds, or is found to possess abilities equal or better thereto

(i) “A person who has engaged in the services of loaning of funds” mentioned in (1) above refers, for example, to a person who has engaged in loan business in a financial institution or a money lender. It should be noted that “the services of loaning of funds” do not refer to mere services for transmitting documents, but need to satisfy the requirements of the services of loaning of funds that the applicant engages in as deposit, etc. intermediary business operations.

(ii) It should be noted that a person who has engaged in analyzing corporate finance, for example, as a certified public accountant, a certified public tax accountant, a financial consultant, an investment banking business manager, a management consultant at a chamber of commerce and industry can be defined, in some cases, as “a person who is found to possess abilities equal to or better than a person who has engaged in the services of loaning of funds” mentioned in (1) above, and that the knowledge and experience required for the services of loaning of funds that the applicant engages in as a deposit, etc. intermediary business operations need to be judged in light of his or her qualifications and job history.

(iii) It should be noted that even a person who has engaged in the services of loaning funds, or is found to possess abilities equal or better thereto, needs to have sufficient knowledge about deposit, etc. intermediary business operations.

(3) Major considerations for internal rules (Article 15(i)(r) of the Act on the Provision of Financial Services; Article 35 of the Cabinet Office Order on Financial Service Intermediaries)

A deposit, etc. service intermediary is required to establish internal rules related to the deposit, etc. intermediary business operations based on the details and method of the deposit, etc. intermediary business operations to be implemented. When checking the content of the internal rules at the registration screening, for example, attention must be paid to the following (i) through (vi).

(i) Methods of solicitation for the conclusion of contracts and clarification of the contents of the contract

Whether the internal rules specifically define the methods of customer solicitation, clarification of the contents of contracts, and provision of documents at the signing of contracts, and stipulate that the deposit, etc. service intermediary conducts appropriate business operations in compliance with laws and regulations. Also whether they prescribe specific procedures for properly examining the status of compliance with laws and regulations.

(ii) Methods for preparation and storage of books and documents

Whether the internal rules specifically define the methods for preparation and storage of the books and documents listed in Article 138 of the Cabinet Office Order on Financial Service Intermediaries.

(iii) Method of implementing training

Whether the internal rules stipulate specific provisions concerning the development of a control environment for properly implementing training for sales representatives in order to ensure compliance with laws and regulations, and provision of appropriate solicitation and explanation of financial instruments, as well as provision of documents, to customers.

(iv) Development of internal control environment

Whether the internal rules specifically stipulate the methods of managing operations pertaining to internal controls and the internal system of responsibility.

(v) Management of customer information

(A) Whether the internal rules specifically specify the methods and systems for properly managing customer information (including separation of organizations and persons in charge, installation of information barriers in terms of equipment and systems, blockade of information) and other handling pursuant to III-2-2.

(B) Whether the internal rules specifically specify the measures in order to obtain the customer's prior consent concerning treatment of non-public financial information and other non-public information (information as prescribed in Article 38 of the Cabinet Office Order on Financial Service Intermediaries; the same applies hereinafter).

(vi) Method for dissemination of internal rules

Whether the contents of the internal rules will be well disseminated to all officers and employees engaging in deposit, etc. intermediary business operations.

V-2-3-2 Examination on Concurrent Engagement in Other Businesses

It is necessary to make an examination of concurrent engagement in other businesses provided in Article 15(iv) of the Act on the Provision of Financial Services, in consideration of matters listed in Article 16 of the Cabinet Office Order on Financial Service Intermediaries. The main points to note are described, for example, in the following (1) to (4).

The examination will be made based on the registration application form and attachments, and other documents or materials on a case-by-case basis, together with cooperation from the applicant through interviews and submission of additional documents where necessary.

It should be noted that the relationships between the contents of the main concurrent business operations and the deposit, etc. intermediary business operations (limited to business operations set forth in Article 11(2)(ii) of the Act on the Provision of Financial Services) are prescribed in Article 16(1)(i)(a) and (ii), etc. of the Cabinet Office Order on Financial Service Intermediaries; Exhibit 2 shows classified information on the relationships. (However, when examining concurrent engagement in other businesses, Exhibit 2 should not always be applied mechanically; individual cases should be fully examined in order to ensure that the applicant is not likely to inhibit the proper and reliable management of the deposit, etc. intermediary business operations by concurrently engaging in other businesses.)

(1) "Standardized loan products" (Article 16(1)(i)(a) and (ii)(b)2. of the Cabinet Office Order on Financial Service Intermediaries)

"Standardized loan products" mean loan products for which the loan possibility and conditions have been determined only by mechanical processing of financial data concerning the fund consumers; "financial data" described here are data related to finance of the fund consumers, including each account item listed in financial statements, and against which there is little or no room for the discretion of a loan officer.

(2) “The act is pertaining to a loan agreement that is concluded with security of goods or articles purchased with the loan funds” (Article 16(1)(ii)(b)1. of the Cabinet Office Order on Financial Service Intermediaries)

“A loan agreement that is concluded with security of goods or articles purchased with the loan funds” includes a housing loan (that places mortgage on a house to be purchased with the loan funds) or an auto loan (that places mortgage on an automobile to be purchased with the loan funds, or sets ownership retention, etc.).

(3) “The content of main concurrent business” (Article 16(1)(i) and (ii) of the Cabinet Office Order on Financial Service Intermediaries)

Whether or not the concurrent business that the deposit, etc. service intermediary engages in corresponds to the main concurrent business should be judged by taking into comprehensive consideration the scale of the concurrent business including the expenses, sales, and earnings pertaining to the business, and the job titles and number of those engaged in the business, and the time required for the business.

(4) The act of “making use of its advantageous position in a transaction for concurrent business” (Article 16(1)(i)(b) of the Cabinet Office Order on Financial Service Intermediaries)

With regard to the act of “making use of its advantageous position in a transaction for concurrent business,” while a document, “Regarding Unfair Trading Practices Following Loosening of Financial Institutions’ Business Categories and Expansion of Business Scope,” issued on December 1, 2004, by the Fair Trade Commission, will be referenced, the following practices, for example, may constitute the act of making use of its advantageous position in a transaction for concurrent business.

(i) The deposit, etc. service intermediary actually forces customers to sign contracts which stipulate that it accepts deposits for which it acts as an agent or intermediary (the same applies to other acts listed in the items of Article 11(2) of the Act on the Provision of Financial Services; the same will apply in the following (ii) to (iv)), by implying that it will suspend transactions related to concurrent businesses, or give unfavorable treatment to such businesses unless they sign the contracts.

(ii) The deposit, etc. service intermediary actually forces customers to sign contracts on acceptance of deposits for which it acts as an intermediary, by requesting them to do so when it conducts transactions with them regarding concurrent businesses.

(iii) In cases where customers intend to sign contracts with a competitor who conducts business related to deposit, etc. intermediary business operations, the deposit, etc. service intermediary prevents customers from signing the contracts on acceptance of deposits with its competitor (including a bank or a bank agent; the same will apply in (iv)) by implying it will suspend transactions with them regarding concurrent businesses or give unfavorable treatment to such businesses.

- (iv) The deposit, etc. service intermediary actually forces customers not to sign contracts on acceptance of deposits with its competitor, by requesting them to do so when it makes transactions with them regarding concurrent businesses.

V-3 Administrative Procedures Related to Supervision

V-3-1 Cooperation between Supervisory Departments

- (1) When a financial service intermediary entrusts deposit, etc. intermediary business operations to a third party, in particular, when a financial service intermediary develops business at multiple sites or over a wide range through the so-called franchise form, the supervisory departments must pay attention to the need to cooperate more closely from the perspective of whether the entrusting financial service intermediary has provided more appropriate instructions and supervision.

In addition, when it is identified that a financial service intermediary intends to develop its business at multiple sites or over a wide range through entrusting deposit, etc. intermediary business operations, the supervising departments shall promptly inform the Financial Service Agency of that fact.

- (2) The supervising departments shall strive to provide the information promptly regardless of the method.

VI Supervisory Evaluation Points and Various Administrative Procedures (Insurance Intermediary Business Operations)

VI-1 Suitability of Operations (Insurance Intermediary Business Operations)

IV-1-1 Insurance Intermediary Business Operations Management System

A financial service intermediary that engages in insurance intermediary business operations (hereinafter referred to as the “insurance intermediary agent” in VI) needs to establish an appropriate insurance intermediary business operations management system so that the insurance intermediary agent does not harm the interests of policyholders, etc.

For this reason, the insurance intermediary agent is required to appropriately implement the following measures, etc. and to inspect the suitability, etc. of the measures, etc. ex-post facto through audits, etc. by the internal audit department and to facilitate corrections as necessary.

VI-1-1-1 Establishment of Appropriate Insurance Intermediary Business Operations Management System

(1) Meaning of insurance intermediary business operations

(i) The insurance intermediary business operations as defined in Article 11(3) of the Act on the Provision of Financial Services refers to acts specified in (A) through (C) below.

(A) Soliciting for the conclusion of an insurance contract

(B) Explaining content of insurance products with the purpose of solicitation for the conclusion of an insurance contract

(C) Other intermediation of conclusion of insurance contracts

(ii) Whether an act falls under (C) above is determined comprehensively in consideration of the position of the act among a series of acts and in light of the requirements defined in (A) and (B) below.

(A) There are circumstances that suggest the integrity and continuity with insurance solicitation by an insurance company, etc. or insurance intermediary business operations by an insurance intermediary agent, such as the case of receiving remuneration from an insurance company, etc. or insurance intermediary agent, etc., the case where there is a capital relationship, etc. with an insurance company, etc. or an insurance intermediary agent, etc.

(B) Recommendation or explanation of specific insurance products is provided.

(2) “Acts related to insurance intermediary business operations”

The regulations on insurance intermediary business operations shall not immediately apply to acts that do not fall under the insurance intermediary business operations in light of (1) above among insurance

intermediary business operation processes in the broad sense after discovering potential customers for contracts towards the establishment of an insurance contract (hereinafter the acts are referred to as “act related to insurance intermediary business operations”).

However, if an insurance intermediary agent instructs a third party to engage in an act related to insurance service intermediary business operations based on an entrustment or a relationship equivalent thereto, whether attention is paid to, for example, the following points in (i) through (iii) so that the third party who accepted entrustment of an act related to insurance service intermediary business operations (hereinafter referred to as a “person who engages in acts related to insurance service intermediary business operations”) will not engage in inappropriate acts.

(Note 1) An act related to insurance service intermediary business operations is considered to be, for example, an act only to provide information on potential customers for contracts to an insurance company, etc. or an insurance intermediary agent without recommending or explaining insurance products, or an act only to re-publish information obtained from an insurance company, etc. or an insurance intermediary agent from among services with the main aim of providing product information, such as a comparison site, etc.

(Note 2) However, for example, it should be kept in mind that the following acts may fall under insurance intermediary business operations.

(A) An act of proactively introducing the product(s) of a specific insurance company, etc. as its business to potential customers and obtaining remuneration from the insurance company, etc. or the insurance intermediary agent.

(B) An act where a person who provides services with the main aim of providing product information, such as a comparison site, etc., provides a recommendation or explanation of specific insurance products by receiving remuneration from an insurance company, etc. or an insurance intermediary agent.

(Note 3) For example, in cases of engaging in the following acts alone, in light of the aforementioned requirements, it is considered that they fall under neither an insurance intermediary business nor act related to insurance service intermediary business operations in principle.

(A) Only distributing fliers of product information under the instructions of an insurance company, etc. or an insurance intermediary agent

(B) Explaining the receipt of administrative communications and administrative procedures, etc. that are implemented by operators of a call center

(C) Explaining the general structure, use method, etc. of insurance products at a financial instrument briefing

(D) An act of posting the advertisements of an insurance company, etc. or an insurance intermediary agent

(i) Whether a person who engages in acts related to insurance service intermediary business operations performs an act leading to eluding the regulations on insurance solicitation and regulations on insurance

intermediary business operations, such as insurance solicitation (including an intermediation of conclusion of an insurance contract that an insurance intermediary agent is not allowed to handle), insurance intermediary business operations, or the provision of special benefits, etc.

(ii) Whether an insurance intermediary agent engages in an act that is likely to hinder correct product understanding of a customer when engaging in insurance intermediary business operations, such as giving an incorrect product explanation or inappropriate evaluation of a specific product, etc. among services with the main aim of providing product information, such as comparison sites, etc. operated by a person who engages in acts related to insurance service intermediary business operations.

(iii) Whether a person who engages in acts related to insurance service intermediary business operations, appropriately performs procedures, such as obtaining consent from customers related to the provision of personal information to a third party, etc., based on the Act on the Protection of Personal Information, etc.

In addition, whether the fees to be paid to a person who engages in acts related to insurance service intermediary business operations is set carefully.

(Note) For example, in cases where an insurance intermediary agent pays expensive introduction fees or incentive remuneration and receives introductions to potential customers from a person who engages in acts related to insurance service intermediary business operations, it should be kept in mind that said remuneration system is generally considered to increase the probability that a person who engages in acts related to insurance service intermediary business operations will provide recommendations or explanations of specific insurance products that the person is essentially not allowed to perform.

(3) Appointment and notification of insurance intermediary

(i) When an insurance intermediary agent appoints officers or employees who engage in insurance intermediary business operations (hereinafter referred to as “insurance intermediary”), whether the insurance intermediary agent examines the eligibility.

In addition, whether examination standards are developed.

An insurance intermediary agent needs to pay attention to whether the insurance intermediary meets the following requirements.

(a) An insurance intermediary is a person who receives appropriate education, management, and instructions on insurance intermediary business operations from an insurance intermediary agent and engages in insurance intermediary business operations.

(b) An employee who engages in insurance intermediary business operations among insurance intermediaries is a person who works at an office of an insurance intermediary agent and engages in insurance intermediary business operations under the instructions, supervision, and orders of the insurance intermediary agent, in addition to (a) above.

(c) An insurance intermediary cannot be an officer or an employee who serves as an agency or as an

intermediary for the conclusion of an insurance contract for another insurance intermediary agent, insurance agency, insurance broker, or insurance company, etc.

- (ii) Whether an insurance intermediary agent made the notification as defined in Article 74 of the Act on the Provision of Financial Services.

(4) Education, management, and instruction of insurance intermediaries

Whether an insurance intermediary agent stipulates internal rules, etc. concerning compliance with laws and regulations, etc. related to insurance intermediary business operations, knowledge of insurance contracts, development of an internal administration management system (including appropriate management of customer information), etc., and provides appropriate education, management, and instructions, such as by taking measures to facilitate development of insurance intermediaries, etc. and increasing the qualifications thereof.

(i) Training of insurance intermediaries

Whether sufficient training is provided based on the characteristics of insurance products in order to provide sufficient knowledge of diverse insurance products and knowledge of insurance contracts and to perform insurance intermediary business operations appropriately so that customers can fully understand them.

In addition, whether sufficient training is provided to ensure appropriate understanding of the public insurance system in consideration of the purport of private insurance, which supplements public insurance.

(ii) Management and instructions of insurance intermediaries

Whether an insurance intermediary agent takes appropriate measures to identify the situation regarding a point, etc. that may trigger inappropriate insurance intermediary business operations and to manage and provide instructions in order to ensure the sound and appropriate operation management of insurance intermediary agents.

In specific terms, for example, (a) and (b) below are possible.

- (a) An insurance intermediary agent manages insurance intermediaries in a way in which their sales performance and the continuing status of insurance contracts, etc. can always be identified.

In this case, an act where officers and employees of an insurance company, etc. substantially intermediate the conclusion of an insurance contract and the insurance contract is regarded to have been handled by an insurance intermediary agent or an act of shifting performances between insurance intermediaries may result in inappropriate insurance intermediary business operations, such as insufficient explanations of important matters, etc. Therefore, care should be taken to ensure that these acts are not performed.

- (b) A financial service intermediary must not, for any reason, receive money or other property from a customer for financial service intermediary business to be performed (Article 27 of the Act on the

Provision of Financial Services). Therefore, an insurance intermediary agent shall establish a system for management and instructions where insurance intermediaries shall not collect insurance premiums from a policyholder and the compliance status thereof can be checked ex-post facto.

(iii) Audit of business offices and other bases

Concerning details of operations related to insurance intermediary business operations at business offices and other bases, whether an audit, etc. is implemented appropriately, including the following points, and the actual status of insurance intermediary business operations and internal administration management status, etc. at business offices and other bases are identified.

In addition, whether appropriate measures are taken for business offices and other bases where internal administration management is determined to be inappropriate by an audit, etc. and a system for instruction and inspection in order to facilitate correction has been developed.

- (A) Whether the audit frequency of business offices and other bases is effective in terms of ensuring operation quality at business offices and other bases.
- (B) Whether the selection of business offices and other bases subject to audit, etc. and audit items are revised at an appropriate time and in an appropriate manner by focusing on information that is identified during daily management and abnormal values, etc. of management indicators.
- (C) Whether a system where audits, etc. can be implemented by visiting without notification has been developed as a method of audit, etc.

VI-1-1-2 Points to Note in Intermediation of Conclusion of Insurance Contracts

The following points should be kept in mind for intermediation of the conclusion of an insurance contract from the perspective of ensuring the sound and appropriate operation management of insurance intermediary business operations performed by an insurance intermediary agent. In this case, appropriately taking into account role sharing on the provision and explanation of information to customers between an insurance intermediary agent and an insurance company, etc. with which the customer intends to conclude a contract, consideration must be provided so that intermediation is not handled in a mechanical and stereotypical manner.

(1) Prevention of intermediation of unjust rollover

In cases of an insurance intermediary agent that is entrusted by two or more insurance companies, etc., whether measures have been taken for the prevention of unjust rollover between the insurance companies, etc. and for management of customer information.

(2) Matters related to Article 294(1) and (2) of the Insurance Business Act as applied mutatis mutandis to Article 30

of the Act on the Provision of Financial Services (hereinafter referred to as the “Insurance Business Act as applied mutatis mutandis”) (Obligation to provide information)

- (i) Whether an insurance intermediary agent appropriately provides the content of an insurance contract and other information that serves as a reference to a policyholder, etc. based on the category and nature, etc. of the insurance contract, concerning insurance intermediary business operations.
- (ii) When providing information by delivery of documents or by alternative electronic or magnetic means, whether the information necessary for customers to understand the content of insurance products (hereinafter referred to as the “contract outline”) and information of which customers are reminded (hereinafter referred to as “advisory information”) are stated.

In addition, major items of the contract outline and advisory information are stated below.

(Note) If the contract outline and advisory information are stated together using the same medium, it is sufficient to indicate said information as “contract information” after omitting (A) (a) and (B) (a) below.

(A) Items of the contract outline

- (a) The information is the contract outline.
- (b) Structure of products
- (c) Details of insurance (compensation)

(Note) Major reasons for payment of insurance proceeds, etc. and major cases where insurance proceeds, etc. are not paid, such as cases that do not fall under reasons for payment, reasons for exemption, etc., shall be stated respectively.

If it is not customary for insurance proceeds, etc. not to be paid, it shall be stated in particular.

- (d) Major special provisions that may be added and the outline thereof
- (e) Insurance period
- (f) Underwriting conditions (insurance proceeds amounts, etc.)
- (g) Matters related to insurance premiums
- (h) Matters related to payment of insurance premiums (payment method and payment period of insurance premiums)
- (i) Matters related to dividends (existence of dividends, payment method of dividends, and method for determining amount of dividends)
- (j) Existence of cancellation refunds, etc. and matters related thereto

(B) Items of the advisory information

- (a) The information is advisory information.
- (b) Cooling-off (revocation of application for an insurance contract as provided for by Article 309(1) of the Insurance Business Act)
- (c) Content of obligation to notify, etc.

(Note) If there are provisions of general conditions that there are cases where an insurance contract cannot be continued (it is discontinued during the insurance period) even though insurance premiums are increased due to increased risk, details of the case shall be stated.

- (e) Major cases where insurance proceeds, etc. are not paid, such as cases that do not fall under reasons for payment, reasons for exemption, etc.

(Note) If they are not customary, it shall be stated in particular.

- (f) Expiration, restoration, etc. of grace periods for insurance premiums and contracts

(Note) Concerning insurance products equipped with the automatic book-entry transfer system of insurance premiums, an explanation of the system shall be included.

- (g) Existence of cancellation and cancellation refunds

- (h) Safety net

- (i) Trade name or name of a designated ADR organization (meaning the “designated dispute resolution organization” as specified in Article 11(9) of the Act on the Provision of Financial Services; the same applies hereinafter) that is a counterpart to a basic contract for implementation of dispute resolution procedures (if there is no designated ADR organization, details of measures to handle complaints and measures to resolve disputes)

- (j) The following matters related to duplication of compensation

(Note) Duplication of compensation refers to a situation where there are multiple compensations of the same category for identical insured person’s benefits by concluding multiple non-life insurance contracts.

- a. If there is another insurance contract with the same category of compensation, it may result in the duplication of compensation.
- b. Reminder of payment of insurance proceeds in cases of duplication of compensation
- c. Major cases of duplication of compensation

- (k) Matters to which special attention should be paid by laws and regulations, etc.

(Note) Matters to which attention should be paid by laws and regulations include the following examples, for example, if a small-amount, short-term insurer is a counterpart financial institution.

- a. A person who only underwrites insurance for which the insurance period is within the period specified in Article 1-5 of the Enforcement Order of the Insurance Business Act and for which the insurance proceeds are the amount specified in Article 1-6 of the Enforcement Order of the Insurance Business Act or less. (Article 56(1)(x)(a) of the Cabinet Office Order on Financial Service Intermediaries)
- b. Total amount of insurance proceeds of all insurance to be underwritten for one insured person is up to 20,000,000 yen (total amount of insurance proceeds of insurances listed in Article 1(i) through (vi) of the Enforcement Order of the Insurance Business Act is

10,000,000 yen). (Article 56(1)(x)(b) of the Cabinet Office Order on Financial Service Intermediaries)

- c. Total amount of insurance proceeds corresponding to insurance categories listed in the items of Article 1-6 of the Enforcement Order of the Insurance Business Act to be underwritten for one policy holder is up to the upper limit of the total insurance proceeds as specified in Article 56(1)(x)(c) of the Cabinet Office Order on Financial Service Intermediaries (Article 56(1)(x)(c) of the Cabinet Office Order on Financial Service Intermediaries)

- (iii) Exclusion from application of obligation to provide information (Article 56 of the Cabinet Office Order on Financial Service Intermediaries)

The insurance contract as specified in Article 56(3)(i)(a) of the Cabinet Office Order on Financial Service Intermediaries is considered to be, for example, a case where a householder purchases insurance policies for family members and pays insurance premiums and insurance premiums are paid by the corporation.

(Note) It should be kept in mind that there are cases where although it is not clearly requested that an insured person pay insurance premiums, it is understood that there are substantial insurance premiums that the insured person will pay based on the comparison between the regular sales price and market price of articles, etc. and the ratio of the amount of insurance premiums necessary for the payment of insurance proceeds that accounts for the price of articles, etc.

In addition, if an insured person's consent is required based on the Insurance Business Act, it should be kept in mind that it is necessary to provide information to an insured person that is sufficient to determine the appropriateness of the consent.

- (iv) Development of the system for obligation to provide information

Whether an insurance intermediary agent has developed the following system concerning measures as specified in Article 35 of the Cabinet Office Order on Financial Service Intermediaries, in order to deliver a document stating the contract outline and advisory information or to provide them by alternative electronic or magnetic means.

(A) Whether measures are taken to clearly indicate a contact window for complaints and consultations at an insurance intermediary agent to a customer in the document (including electronic or magnetic records recording the matters to be stated in the document; the same applies hereinafter in VI-1-1-2, (2), (iv)).

(B) Whether measures are taken to clearly indicate the trade name or name of a designated ADR organization that is a counterpart to a basic contract for implementation of dispute resolution procedures (if there is no designated ADR organization, content of measures to handle complaints and measures to resolve conflicts) in the document stating the advisory information.

(C) Whether measures are taken to state matters to be stated in the document by paying attention to the following points. (See "VI-1-3 Securing Appropriate Indications.")

(a) Whether the character size and layout of information, etc. are stated so that customers can understand

them easily.

(Note) For example, character size shall be 8 points or larger; character color; information shall be arranged in descending order of importance; displays shall be devised, such as using graphs and figures, etc.

(b) Whether expressions to be stated, etc. are indicated in a simple and clear manner.

(Note) For example, whether technical terms are indicated and explained so that a customer can understand them easily. Whether details of products are indicated and explained so that a customer is not likely to misunderstand them.

(c) Whether specific figures are stated, etc. concerning matters for which specific values, etc. must be presented to a customer (insurance period, insurance proceeds, insurance premiums, etc.).

(Note) In cases where it is difficult to state, etc. specific values, etc., consideration shall be given so that a customer does not misunderstand and, for example, representative examples, the range that the customer can select, references, etc. of parts stating the value, etc. in other documents shall be stated.

(d) Concerning the volume of information to be stated, etc. in the document, etc., whether consideration is given so that a customer does not lose the motivation to understand them and whether they are determined based on the characteristics and complexity of insurance products.

(e) In cases where the documents, etc. are separate and independent documents, etc. from other documents, etc. or are the same documents, etc., whether the information is clearly distinguished from other information and it is stated clearly that it is important information.

(D) Whether a system has been established where information is at least orally provided and explained in the following manner, in addition to the delivery of the document or provision thereof by other appropriate means (including electronic or magnetic means).

(a) It is important to read the documents, etc.

(b) It is important to read the parts stating particularly disadvantageous information to a customer, such as major reasons for exemption, etc.

(c) In particular, in cases of rollover (meaning to instruct a customer to cease an existing contract and to apply for a new insurance contract, or to instruct a customer to apply for a new insurance contract and to cease the existing insurance contract as specified in Article 300(1)(iv) of the Insurance Business Act as applied mutatis mutandis), it may be disadvantageous to a customer.

(E) When delivering the document or providing it by other appropriate means (including electronic or magnetic means), whether a system has been developed to secure sufficient time for a customer to understand the content of the document, etc. prior to the conclusion of a contract.

(Note 1) Concerning documents, etc. stating the advisory information, an effective reminder is provided to a customer. Therefore, it is sufficient to explain, deliver, or provide it at the filing of an application for a contract.

(Note 2) When securing sufficient time for a customer, the characteristics and selling method of insurance products shall be taken into account and, at the same time, whether the customer's level of understanding and convenience for the customer are not impaired shall be considered.

(F) In cases of providing and explaining information by non-face-to-face or non-contact forms (including a teleconferencing system (meaning a method where each counterpart's status can be recognized by transmitting and receiving images and sound); the same applies hereinafter), such as via telephone, mail, internet, etc., whether a system has been developed where information on the same level as the details specified in (A) through (E) above is provided and explained.

For example, it is necessary to provide or explain appropriate information to a customer at least by the following methods.

(a) Communication via telephone

A method where matters to be explained orally to a customer are specified and the content of the document, etc. is appropriately explained, it is explained orally that reading the document, etc. is important, and then the document, etc. is delivered without delay by mail, etc. or by electronic or magnetic means, or is provided by alternative electronic or magnetic means.

(b) Communication by mail

A method where it is stated in a way that a customer can fully recognize that it is important to read the document and the document is sent to a customer by mail or to provide it by alternative electronic or magnetic means.

(c) Communication via the internet, etc.

A method where information is displayed by electronic or magnetic means in accordance with the content of the statements and statement methods, etc. of the document and then it is explained by electronic or magnetic means in a way that a customer can fully recognize that it is important to read the document.

(Note 1) The same level as the details specified in (D) above refers to, for example, the fact that it is possible to substitute for providing and explaining information orally by statements in a document in cases of communication by mail and by displaying by electronic or magnetic means in cases of communication via the internet, etc.

(Note 2) In cases of communication by mail, it is sufficient to send a document with which a customer can fully recognize that reading the document is important along with the document.

(Note 3) In cases of sending via the internet, means of printing and storing by electronic or magnetic means, etc. are possible in lieu of sending the document by mail, etc.

(G) Whether there is a system for fully confirming with a customer that the customer understands matters to be stated in the document, etc. stating the contract outline and advisory information and for ex-post facto inspection of the confirmation status. In particular, even in cases of providing these documents in a non-face-to-face or non-contact form, such as via the internet, etc., by electronic or magnetic means, whether

it is confirmed that a customer understands the matters stated in the document on the same level as the case of delivering and explaining the document in a face-to-face form.

(Note) As a method to confirm that a customer understands the matters stated in the document in cases of providing information in a non-face-to-face or non-contact form, such as via the internet, etc., by electronic or magnetic means, for example, a teleconference system can be used to provide an explanation by displaying the matters stated in the document as necessary and to confirm whether the customer understands it through communication with the customer.

In a form that cannot confirm whether a customer understands the information by video, it is possible to confirm whether a customer understands the information by combining measures, such as by supplementary information via telephone, etc. as necessary, establishing a system so that a user can move only to a page for an application after viewing all of the document, asking a question and establishing a check box to determine whether the customer has read and understood the content of the document, etc. depending on the nature, etc. of the customer.

(3) Matters related to Article 56(1)(iv) the Cabinet Office Order on Financial Service Intermediaries

An insurance intermediary agent that handles insurance contracts underwritten by two or more insurance companies, etc. (meaning an insurance intermediary agent that handles insurance contracts related to insurance underwritten by two or more counterpart financial institutions as specified in Article 56(1)(iv) of the Cabinet Office Order on Financial Service Intermediaries; the same applies in VI-1-1-2, (3) hereinafter) shall pay attention to the following points and check whether measures are taken to ensure the explanation of reasons to suggest to hold insurance policies as specified in Article 56(1)(iv) of the Cabinet Office Order on Financial Service Intermediaries and the sound and appropriate operation of an insurance intermediary agent that handles insurance contracts underwritten by two or more insurance companies, etc.

- (i) Whether an outline of comparable products that follow the customer's intention (in cases where products are narrowed down by product characteristics, such as the category of insurance and content of insurance (compensation), etc. based on the customer's intention identified by the insurance intermediary agent, the narrowed down products) from among products handled by an insurance intermediary agent that handles insurance contracts underwritten by two or more insurance companies, etc., is clearly indicated and the details of the product are explained at the request of the customer.
- (ii) In cases of presenting and recommending a specific product to a customer, whether it is determined to explain the reasons for the presentation and recommendations in an easy-to-understand manner. In particular, in cases of presenting and recommending a product from among products that the insurance intermediary agent handles and that meet the customer's intention, after additionally narrowing them down based on the decision of the insurance intermediary agent that handles insurance contracts underwritten by two or more insurance companies, etc., whether objective standards and reasons, etc., such as product characteristics and

insurance premiums levels, etc., are explained.

(Note 1) Care should be taken not to narrow down, present, or recommend products, for example, in order to solicit a customer to choose a product for which an insurance intermediary agent receives substantially high commission fees, while formally pretending to provide an explanation of the reasons to recommend the product objectively.

(Note 2) For example, in cases of comparing with another product in order to show the superiority of products that the insurance intermediary agent recommends, the point that it is necessary to comprehensively indicate to a customer the matters necessary for making a correct decision concerning the content of an insurance contract, such as accurately indicating to the customer the entire image and characteristics of said other products and explaining the basis of the priority of the product that the insurance intermediary agent recommends (see Article 300(1)(vi) of the Insurance Business Act as applied mutatis mutandis, and VI-1-1-2, (10), (ii)) should be kept in mind.

(iii) Regardless of (i) and (ii) above, in cases of narrowing down products or presenting and recommending a specific product to a customer without objective standards or reasons, etc., such as product characteristics and insurance premium level, whether the standards and reasons, etc. (including a capital relationship with a specific insurance company, etc. and other reasons related to administrative procedures and management policies) are explained.

(Note) In cases of setting fairness and neutrality between insurance companies, etc., care should be taken not to consider a capital relationship with a specific insurance company, etc., the level of fees, and other circumstances, such as administrative procedures, management policies, etc., as standards and reasons for narrowing down, presenting, or recommending products.

(iv) Concerning measures for appropriately presenting and recommending products and indicating the position of an insurance intermediary agent, whether the measures have been stipulated in internal rules, etc. and a system has been established to check and inspect their implementation status regularly and as necessary, based on (i) through (iii) above.

(4) Matters related to Article 294-2 of the Insurance Business Act as applied mutatis mutandis (obligation to identify and check a customer's intention)

Whether an insurance intermediary agent identifies a customer's intention based on the provision of Article 294-2 of the Insurance Business Act as applied mutatis mutandis, and provides opportunities to the customer to check that the customer's intention and the content of the insurance contract match when the insurance intermediary agent proposes a conclusion, etc. of an insurance contract that meets the customer's intention, explains the content of the insurance contract, and intermediates the conclusion of the insurance contract.

(i) Method to identify and check a customer's intention

Concerning the method to identify and check a customer's intention, whether an insurance intermediary agent facilitates the customer to take into account their life plan and public insurance system, etc., to understand the risk that the customer has and the necessity of insurance based thereon appropriately, to determine whether the content of the insurance contract in question meets the customer's intention, and then to conclude the insurance contract. For this reason, whether an insurance intermediary agent identifies and checks a customer's intention by the method based on the originality and ingenuity of the insurance intermediary agent in consideration of the products to be handled and the form of solicitation, such as appropriately providing information on the public insurance system, such as the estimated amount of the public pension to be received, etc.

In specific terms, for example, the following methods can be considered.

(A) When explaining and proposing an individual plan for the customer, including the insurance proceed amount and insurance premiums, the customer's intention shall be identified. Then, an individual plan based on this intention shall be proposed and an explanation shall be provided, including how the plan corresponds to the customer's intention.

Subsequently, at the stage where the customer's final intention is fixed, the intention shall be compared with the customer's main intention that was first identified. If they are different, the difference shall be confirmed.

In addition, at the stage before concluding a contract, whether the customer's intention conforms to the content of an insurance contract to which the customer intends to apply is checked ("the customer's intention check").

(Note 1) For example, it may be possible to identify a customer's intention in advance, by using a questionnaire, etc.

(Note 2) Identifying a customer's intention includes, for example, a method to estimate it based on the customer's properties, such as gender, age, etc., and the customer's living environment, etc. In this case, it is considered that an insurance intermediary agent explains the intention that the insurance intermediary agent estimated (identified) and used it for designing the plan, such as stating and explaining the relationship between the estimated (identified) intention and individual plan in an easy-to-understand manner in a prominent place for materials delivered or provided, such as a written design sheet, etc., whenever an individual plan is prepared and proposed, and also explains the plan, including how it corresponds to the customer's intention.

(Note 3) Concerning the identification of the intention of a customer who desires compensation in association with an automobile, etc. and explanations and proposals, since it is easy to provide a specific image of the details of compensation that the customer requires and therefore, the intention becomes clear, it is considered that an insurance intermediary agent identifies the customer's major intention and information, creates and proposes an individual plan, provides

a comparison between the customer's major intention and the individual plan, and explains the relationship between the customer's intention that the insurance intermediary agent identified and the individual plan in an easy-to-understand manner.

(B) In cases of an insurance contract for which the amount of insurance premiums to be paid in an year as specified in Article 56(1)(iii)(b) of the Cabinet Office Order on Financial Service Intermediaries (in cases of an insurance contract for which the insurance period is less than one year and the insurance period can be renewed, the amount that is converted into the amount per year) is 5,000 yen or less, the customer's intention shall be identified appropriately based on the details and characteristics of the product.

(ii) Matters subject to identifying and checking a customer's intention

For example, whether the following information related to a customer's intention is identified and checked.

(A) First sector insurance products and third sector insurance products

(Note) Excluding overseas travel accident insurance products and non-life insurance products for which the insurance period is less than one year (limited to insurance products in which the facts or matters related to present or past health conditions and other physical and mental conditions of an insured person are not included in the important facts or matters that a policyholder or insured person should provide notification of at the conclusion of a contract).

(a) In which sector the customer desires insurance (insurance for the bereaved family if an insured person dies, medical insurance, insurance for cancer or other specified diseases among medical insurance, insurance for injuries, insurance for long-term care, preparation for living expenses in old age, asset management, etc.)

(b) Whether part of savings is required

(c) If there is a scope of the customer's desire related to insurance period, insurance premiums, and amount of insurance proceeds and priority matters, that fact.

(B) Second sector insurance products

(Note) In addition to the second sector insurance products, including overseas travel accident insurance products and non-life insurance products for which the insurance period is less than one year (limited to insurance products in which the facts or matters related to present or past health conditions and other physical and mental conditions of an insured person are not included in the important facts or matters that a policyholder or insured person should provide notification of at the conclusion of a contract).

(a) In which sector the customer desires compensation (Category of insurance, such as overseas travel accident insurance, non-life insurance, etc.)

(b) Details of the major compensation that the customer requires

(Note) When identifying a customer's intention, for example, the following Information can be considered.

- Concerning overseas travel accident insurance, the details and scope of the compensation,

traveler, destination of travel, travel period, etc.

- Concerning non-life insurance for which the insurance period is one year or less, the details and scope of the compensation, etc.

(c) If there is a scope of the customer's desire related to the compensation period, insurance premiums, and the amount of insurance proceeds and priority matters, that fact.

(iii) Exclusion from application of the obligation to identify and check a customer's intention (matters related to Article 57 of the Cabinet Office Order on Financial Service Intermediaries)

In cases of renewing or partially changing an existing contract, if it falls under a substantial change, the customer's intention concerning the partial change shall be identified and checked appropriately.

(iv) Development of the system of obligation to identify and check a customer's intention

In cases of an insurance intermediary agent, concerning the measures specified in Article 294-2 of the Insurance Business Act as applied mutatis mutandis, whether an opportunity is secured so that a customer can check that an insurance product for which the customer intends to apply for a contract conforms to the customer's intention and the process, etc. to allow the customer to select and purchase insurance products appropriately has been stipulated in internal rules, etc., as well as appropriate training, management, and instruction to an insurance intermediary that belongs to the insurance intermediary agent are provided, and the following system has been established.

(A) Development of a system related to identifying a customer's intention

Whether measures are taken to check the appropriate performance of operations related to identifying a customer's intention by either an insurance company, etc. or an insurance intermediary agent, or both. For example, whether measures are taken, such as storing documents, etc. used to identify a customer's intention (for example, questionnaires, design documents, etc.) that are related to the customer's intention by comparing the customer's final intention as specified in VI-1-1-2, (4), (i), (A) and related to the customer's final intention, etc., based on the insurance intermediary business operation processes.

(Note) When collecting and providing information related to a customer's intention, it should be kept in mind that it is necessary to comply with the Act on the Protection of Personal Information (indication of the purpose of use and consent related to provision to a third party, etc.), preventive measures against adverse effects in over-the-counter sales of a bank, etc., and other relevant laws and regulations, etc.

(B) Development of the system related to checks of a customer's intention

Concerning the measures specified in Article 35 of the Cabinet Office Order on Financial Service Intermediaries, whether an insurance company, etc. or an insurance intermediary agent takes measures to check the appropriate performance in order to secure an opportunity where a customer checks that the insurance product for which the customer intends to apply for a contract matches the customer's intention and to allow the customer to appropriately select and purchase insurance products. In cases of using a method as specified in VI-1-1-2, (4), (i), (A) or a method equivalent thereto, whether the

following measures are taken.

(a) Preparation and delivery of a written confirmation of the customer's intention

Whether it is determined that information related to a customer's intention is collected, a document, etc. to confirm that an insurance product conforms to the customer's intention (including electronic or magnetic records recording the matters to be stated in the document; hereinafter referred to as a "written confirmation of the customer's intention") is prepared and delivered or provided to the customer, and the document is stored at the insurance company, etc. in order to secure an opportunity where the customer eventually confirms before concluding a contract whether the insurance product for which the customer intends to apply for a contract conforms to the customer's intention.

(b) Matters to be stated in the written confirmation of the customer's intention

Whether the following matters are stated in the written confirmation of the customer's intention.

a. Information related to the customer's intention

b. How the content of an insurance contract corresponds to the intention.

c. Other matters that should be particularly stated in relation to the customer's intention

For example, the following information may be stated by establishing a field for special comments.

[a] In cases where the content of the insurance contract does not conform to all or part of a customer's intention, that fact.

[b] Information about the customer's intention, particularly if the customer's intention is strong or is strongly individualized.

[c] In cases where minimum necessary information to check that the content of the insurance contract conforms to the customer's intention is not provided, that fact.

d. The name of the insurance intermediary

Whether the name is stated in order to identify for a customer the person responsible for creating the document.

In addition, if an insurance intermediary uses his/her former last name, it is necessary to develop a system where the insurance intermediary agent appropriately manages the name that is used as an insurance intermediary for a notification and the name to be indicated to a customer.

(c) Method of stating information in a written confirmation of the customer's intention

Whether a written confirmation of the customer's intention is stated in an easy-to-understand manner for the customer.

In addition, concerning information related to the customer's intention, for example, there is a method to list items of information related to a customer's intention that are estimated in advance in the document. In this case, a field for special comments, etc. shall be established in order to describe information related to a customer's intention that cannot be estimated in advance ((b), c. above).

(d) Time to check and deliver written confirmation of the customer's intention

Whether measures are taken to check if the content of the insurance contract that the customer intends to apply for conforms to the customer's intention prior to the conclusion of the insurance contract.

In addition, whether measures are taken so that written confirmation of the customer's intention that is checked by the customer will be delivered or provided to the customer without delay after the customer checks it.

In cases where it is difficult to deliver or provide the document immediately, such as in a case where the customer requests to conclude a contract immediately or where it is a solicitation via telephone, etc., it is sufficient to consider the customer's convenience, orally checks the content to be stated in the written confirmation of the customer's intention, and then to deliver and provide the written confirmation of the customer's intention without delay *ex-post facto*.

(e) Check and modification of details of statements in the written confirmation of the customer's intention

In particular, concerning information related to a customer's intention ((b), a. and c. above) from among details stated in the written confirmation of the customer's intention, whether it is determined to check with the customer if there are statements against that fact and, in cases where the customer requests to modify statements of the parts in question, to take actions promptly.

(f) Check of a customer's intention related to the details of an insurance contract

Concerning matters that particularly require to be checked from among details of an insurance contract that a customer intends to apply for if it conforms to the customer's intention (specific details of insurance (compensation), insurance premiums (including payment method of insurance premiums and time to pay insurance premiums), amount of insurance proceeds, insurance (compensation) period, existence of dividends, etc. for the main contract or for each special contract), whether measures are taken to facilitate re-confirmation for the customers by the method, such as establishing questions for confirmation in the written confirmation of the customer's intention, etc.

(g) Medium, etc. of written confirmation of the customer's intention

Concerning written confirmation of the customer's intention, whether the necessity of retention by the customer is considered with the medium.

Although it is not always necessary to be an independent document, etc. (it is considered possible to integrate it with an application form), in cases of integrating it with other documents, etc., it should be kept in mind that it is necessary to clearly distinguish and describe the parts corresponding to the written confirmation of the customer's intention from other parts in the documents, etc.

Since the written confirmation of the customer's intention is delivered so that both the insurance company, etc. or insurance intermediary agent and the customer check it, whether it is determined that the insurance company, etc. or insurance intermediary agent also retains the documents, etc. by a method where the document, etc. can be checked *ex-post facto*.

(Note) In cases of delivering the document, etc. by electronic or magnetic means, such as via e-mail,

etc., it is necessary to obtain consent from the customer, and it can be retained by printing or by electronic or magnetic means.

- (h) Actions in cases where a customer does not desire to prepare and deliver written confirmation of the customer's intention

In cases where a customer does not desire to prepare and deliver written confirmation of the customer's intention, whether a system has been established where the role of the document (a document for both the insurance company, etc. or the insurance intermediary agent and the customer to check whether the details of the insurance contract that the customer intends to apply for conform to the customer's intention, etc.) is explained in writing, etc. to the customer and the fact that the customer did not desire to prepare and deliver the written confirmation of the customer's intention can be inspected ex-post facto.

- (i) Inspection, etc. of matters to be stated in the written confirmation of the customer's intention

Concerning the preparation and delivery of written confirmation of the customer's intention, whether appropriate measures are taken, such as matters to be stated and the method of stating the matters, information related to the customer's intention to be collected and the collection method, etc. are inspected and are reviewed as necessary based on the characteristics of the insurance product and changes to the sales method status and in consideration of the details of complaints and consultation with the customer, etc.

- (j) Actions in cases where it is obvious that a customer misunderstands the details, etc. of an insurance contract

In cases where it is obvious that a customer does not understand or misunderstands the details, etc. of an insurance contract, whether it is determined to strive to provide an easier to understand explanation and to resolve the customer's misunderstanding.

- (k) Explanation, etc. of the scope of insurance companies, etc. to be handled

Whether it is determined to provide an explanation of the scope of insurance companies, etc. that an insurance intermediary agent can handle (for example, one company only or multiple companies; in cases of multiple companies, information, such as the number of insurance companies, etc. that the insurance intermediary agent can handle, etc.) and to provide an explanation that the insurance intermediary agent does not have the right to accept a notification when a customer intends to provide a notification.

- (5) Matters related to development of a system related to recommendations on purchasing a group insurance policy

In light of the intimacy between a policyholder and an insured person, interests related to group insurance for both parties, and requirements to become a member of the group, etc., concerning an insurance where a group that is not found to have a close relationship to an extent between a policyholder and an insured person

is an insured group, whether the following system has been established in cases where an insurance intermediary agent that intermediated the conclusion of the group insurance provides information when recommending to purchase the insurance policy and identifies and checks the customer's intention.

- (i) In cases of recommending purchase of an insurance policy, whether it is required to perform actions in accordance with the regulations on insurance intermediary business operations, such as, for example, prevention of the prohibited acts specified in Article 300(1) of the Insurance Business Act as applied *mutatis mutandis*, etc. and appropriate measures are taken so that no avoidance of the regulations for solicitation occurs.
- (ii) In cases of recommending purchase of an insurance policy via telephone, whether appropriate measures are taken based on VI-1-2-1-1, (4).

(6) Actions related to duplication of compensation not based on the customer's intention

Concerning duplication of compensation that is not based on the customer's intention, whether an insurance intermediary agent engages in the following activities to ensure that explanations, etc. related to duplication of compensation are provided to a customer fully and appropriately when concluding a new contract or novating or renewing an existing contract (hereinafter collectively referred to as a "new contract, etc.") from the perspective of facilitating the prevention and resolution of said duplication of compensation.

- (i) Whether matters necessary for taking action related to the duplication of compensation, such as a steady implementation method of explanations related to the duplication of compensation, etc. are appropriately stipulated in internal rules, etc.
- (ii) Whether an insurance intermediary agent appropriately provides training, management, and instruction on the duplication of compensation to an insurance intermediary.
- (iii) In cases of concluding a contract by combining insurance products (including special contracts) handled by the insurance intermediary agent, whether a list of combinations of insurance products that results in the duplication of compensation has been created.

In addition, whether the list is reviewed as necessary, such as when starting the sale of a new insurance product, etc.

- (iv) When explaining a product at the time of a new contract, etc., in cases of concluding a contract by combining with the insurance product, whether it is determined to check if the customer has purchased an insurance policy that results in the duplication of compensation.

In addition, in cases where the customer has purchased an insurance policy that falls under a duplication of compensation, whether the relationship between insurance premiums and insurance proceeds is expressly explained, the customer's intention is checked, and compensation with appropriate content based on the customer's intention is provided.

- (v) Whether a system has been established where the actual status of checking and explaining to a customer

related to the duplication of compensation is identified and inspected.

(7) Matters related to Article 295 of the Insurance Business Act as applied mutatis mutandis (prohibition on self-contracts)

(i) Self-contract

(A) Whether an insurance intermediary agent has established a system that can identify and inspect self-contract status.

(B) When calculating insurance premiums related to a self-contract, it shall be handled as stated below.

(a) In cases of an insurance contract that may be confused with the contract of an insurance intermediary agent and someone else's contract, when insurance premiums falling under a self-contract are not clearly segmented, the full amount is deemed to fall under a self-contract.

(b) In cases where a contract of an insurance intermediary agent changes to a someone else's contract or someone else's contract is changed to a contract of an insurance intermediary agent during an insurance period, insurance premiums related to a self-contract may be calculated by allocating them in proportion to the actual period.

(ii) Special contract

When an insurance intermediary agent sets the insurance intermediary business operations of an insurance contract (limited to an insurance contract where a non-life insurance company specified in Article 2(4) of the Insurance Business Act and a foreign non-life insurance company specified in paragraph (9) of the same Article become the insured person; hereinafter referred to as a "special contract") where a person who has a close relationship in terms of personnel or capital with the insurance intermediary agent as a policyholder or an insured person as the main purpose (meaning that the percentage of insurance premium of special contracts in insurance premiums to be handled exceeds 50%), there is a problem in light of the purport of Article 295 of the Insurance Business Act as applied mutatis mutandis. For this reason, whether the insurance intermediary agent has established a system where the status can be identified and inspected in the same way as a self-contract and thereby secures the fairness of insurance intermediary business operations and strives to enable the insurance intermediary agent to become independent while paying attention to the following points.

(A) Whether an insurance contract where the following persons (hereinafter referred to as "specified persons") are a policyholder or insured person is identified as a special contract.

(a) A relative living in the same household as an insurance intermediary agent (including affinity) and a relative within a second degree of kinship outside the same household (not including affinity)

(b) A person whose investment rate in an insurance intermediary agent that is a corporation exceeds 30%.

(Note) Calculation method of investment ratio

When calculating the total of investment amounts of relatives within the same household with

an individual who is an investor (not including affinity) and the investment rate exceeds 30%,
the individual

(B) In cases where it is found that an insurance intermediary agent is the one mainly directing the insurance intermediary business operations of a special contract, whether it is reported to the Financial Service Agency or the local financial bureau along with the reasons why the insurance intermediary agent falls under the status and a corrective action plan by the end of the month following the month of judgment.

(iii) In cases where the percentage of insurance premiums received related to a self-contract or a special contract exceeds 30%, whether it is determined to be promptly corrected.

(8) Matters related to Article 300(1)(iv) of the Insurance Business Act as applied mutatis mutandis

Whether notification has been made of disadvantageous facts, such as the fact that there are cases where a policyholder may bear the predetermined amount as a so-called termination deduction, etc., where a policyholder may lose the claim for special dividends and other claims related to dividends that arise with the condition of continuing the contract for the predetermined period, where a policyholder cannot conclude a new insurance contract due to the worsening of health conditions of an insured person, etc.

In addition, whether it is fully confirmed by an appropriate method that a customer understood the disadvantageous facts.

(9) Matters related to Article 300(1)(v) of the Insurance Business Act as applied mutatis mutandis

(i) In cases where an insurance intermediary agent provides various kinds of services and articles to a policyholder or insured person in relation to insurance intermediary business operations, whether the insurance intermediary agent pays attention to the following points so that it does not fall under the “provision of extraordinary profits.”

(A) Whether the economic value and content of the services, etc. exceed social reasonableness.

(B) Whether the services, etc. substantially fall under a discount or rebate on insurance premiums in light of the degree of cashability and scope of use, etc.

(C) Whether the provision of the services, etc. is likely to significantly harm fairness between policyholders.

(Note 1) In cases where an insurance intermediary agent grants points for the conclusion of an insurance contract to a policyholder or insured person and provides discount services, etc. related to living based on the points, it should be kept in mind that paying back cash based on the points falls under discount and rebate of insurance premiums and other provisions of extraordinary profits, and they are prohibited, excluding cases where it is conducted based on the documents listed in the items of Article 4(2) of the Insurance Business Act.

(Note 2) It should be kept in mind that discounts, etc. of fees or other remunerations that an insurance intermediary agent receives from a customer as compensation for insurance intermediary

business operations may fall under a discount and rebate of insurance premiums and other provisions of extraordinary profits depending on the content of the discounts, etc. thereof, excluding cases where it is conducted based on the documents listed in the items of Article 4(2) of the Insurance Business Act.

(ii) When intermediating the conclusion of a contract that is treated as a group, whether the following items are appropriately checked based on role sharing with an insurance company, etc.

(A) The target group meets the requirements specified in the business method statement.

(B) The target group constitutes a quorum for the group.

(C) A policyholder or an insured person meets the requirements specified in the business method statement.

(D) The application of a discount rate, such as a group discount, etc., is appropriate.

(10) Matters related to Article 300(1)(vi) of the Insurance Business Act as applied mutatis mutandis

(i) Concerning an indication (including notification; the same applies hereinafter) related to an insurance contract, whether measures are taken so that a customer fully understands it and whether it is indicated based on the characteristics of the product.

In addition, indications include those performed using the following methods (the same applies hereinafter in VI-1-1-2, (11)).

(A) Documents and drawings that are used for insurance intermediary business operations, such as pamphlets and brochures for concluding a contract.

(B) Advertisements using posters, signs, and items similar thereto.

(C) Advertisements using newspapers, magazines, and other publications, broadcasting, projections, theatrical performances, or electrical bulletin boards.

(D) Advertisements via the internet, etc.

(E) Other media to provide information

(ii) The following matters can be considered acts related to comparative indications that conflict with Article 300(1)(vi) of the Insurance Business Act as applied mutatis mutandis.

(A) Matters or values that are not based on objective facts are indicated.

(B) Matters necessary for making an accurate decision on the content of an insurance contract are not displayed comprehensively, but only partially.

(Note 1) In cases of a comparative indication using a “contract outline” (in cases where it is conducted by the method of listing the “contract outline” of each contract, or where all details stated in the “contract outline” are summarized in a table and indicated, etc.), it is regarded that matters necessary for making an accurate decision on the details of an insurance contract are indicated comprehensively.

(Note 2) In cases of making a comparative indication (including cases where the details of statements are

summarized in a table and indicated), if the following requirements are fully met, it is regarded that matters necessary for making an accurate decision on the details of an insurance contract are comprehensively indicated.

(A) Concerning all insurance products subject to a comparative indication, measures shall be taken so that when a customer who received a comparative indication and desires to obtain the contract outline, the customer can promptly obtain one.

For example, concerning all insurance products subject to the comparative indication, it is considered that, after a system is developed where the contract outline is provided at the same time as the comparative indication, where the contract outline can be displayed on a website for all insurance products subject to the comparative indication, or where the contract outline that a customer requested can be delivered or provided via mail, etc. without delay at the request of the customer, etc., the system can be thoroughly made known to customers.

(b) The following reminder is stated in relation to comparative indications.

a. Not all details of insurance products are stated in a comparative table, but it must be used only as a reference.

b. Details of insurance products stated in a comparative table must be checked overall with the contract outline and pamphlet.

(C) Details of an insurance contract are indicated as if the overall contract is superior by putting too much importance on the advantages only or by not indicating points inseparable from advantages when displaying advantages.

(D) Concerning the comparison of insurance contracts that are not regarded as the same category of insurance under social conventions or under commercial conventions, etc., it is indicated as if it were a comparison of the same category of insurance.

(Note) For example, in cases of comparing insurance products with different insurance periods, in cases of comparing insurance products with dividends and those without, etc., it is required for them to be stated in a way that a customer is not misled to believe that they are the same category of insurance products, such as stating the difference in details of products clearly.

(E) It is indicated by comparing the details of an insurance contract that is not currently provided.

(F) Concerning the details of other insurance contracts, their disadvantages are unreasonably exaggerated and indicated not with the aim of providing specific information, but with the aim of defaming the insurance contract.

(iii) In cases of making a comparative indication comparing the product of an insurance company, etc. with the products, etc. of other insurance companies, etc., whether measures are taken so that <i> an indication including the following matters is made using documents, etc. (including electric or magnetic records recording the matters to be stated in the document; the same applies hereinafter in IV-1-1-2)) and <ii> the characteristics, etc. of products of other insurance companies, etc. are not incorrect.

(Note 1) Concerning <i> above, if it meets the requirements defined in (ii), (B) (Note 1) or (Note 2), it is considered that the requirements are met.

(Note 2) In relation to the content of insurance (compensation) and the content of special provisions, concerning reasons that exist almost in common with all products to be compared and reasons that are found to be regularly paid in the category of insurance subject to the comparison, even if the details of the statement are omitted, it does not immediately cause the possibility of misunderstanding.

(a) Insurance period

(b) Details of insurance (compensation) (if insurance proceeds are paid, major reasons for exemption, etc.)

(c) Underwriting conditions (insurance proceeds amounts, etc.)

(d) Existence of special provisions and the details thereof

(e) Insurance premium rate and insurance premiums (an example case shall be set under the same conditions as much as possible and calculation conditions shall be stated together.)

(f) Insurance premium payment method

(g) Relationship between insurance premiums paid and maturity refunds

(h) Other matters that are found to be important from the perspective of protection of the policyholder

(iv) In cases of making a comparative indication related to insurance premiums, whether consideration is given to preventing customers from being solicited to focus excessively on insurance premiums or to prevent indications where customers overlook the details of insurance (compensation) and other important factors. In addition, in order to prevent customers from focusing on insurance premiums alone, whether measures are taken concerning the structure and stating method, etc. of a comparative table so that it will not lead to customer misunderstanding, such as stating reminders that it is necessary to compare and examine insurance products after considering the details of insurance (compensation) and other factors in addition to insurance premiums along with the comparative table.

(Note 1) It is considered to be the minimum necessary for an appropriate indication to state preconditions that have an impact on insurance premiums, such as contract conditions, the outline of details of insurance (compensation), etc. along with the indication.

(Note 2) In cases where differences in applicable insurance premiums are prominent depending on the customer's age, gender, and other preconditions, it is considered to be appropriate to state a reminder that since there are cases where insurance premiums are different based on the differences in preconditions, it is necessary to ask the insurance company, etc. about insurance premiums that are actually applied and then select an insurance product, along with the indication.

(v) When conducting a comparative indication, it is desirable to define for customers who are the actors of the comparative indication (insurance company, etc., insurance intermediary agent), whether there is a special relationship of interest (for example, there is a strong capital relationship, etc.) that may damage the

neutrality and fairness of the comparative information to be provided between an insurance company, etc. that provides an insurance product subject to the comparison and the insurance intermediary agent, the information that is used as a basis for providing comparative information, etc.

(11) Matters related to Article 300(1)(vii) of the Insurance Business Act as applied mutatis mutandis

(i) Whether measures are taken to eliminate acts that conflict with Article 300(1)(vii) of the Insurance Business Act as applied mutatis mutandis.

(ii) Indication of estimated dividends

(A) The following acts can be considered to be acts that conflict with Article 300(1)(vii) of the Insurance Business Act as applied mutatis mutandis, in relation to the indication of estimated dividends.

(a) The fact that there is a fiscal year where the actual dividend amount may fluctuate from the estimated dividend amount that is indicated and may be nil (zero) is not indicated along with the estimated dividends.

(b) Although the estimated dividend amount that has been indicated shows an example of calculation under the predetermined conditions as an indicator of the amount to be received in the future, that fact and the details of the predetermined conditions are not indicated.

(c) Structure of dividends (the fact that dividends are determined based on the settlement of accounts in the previous fiscal year prior to the time of payment), payment method (distinction of reserved dividend method, insurance premium off-set method, method of increasing insurance proceeds, cash payment method, etc.), and matters that are assumptions or conditions of estimated dividends are not indicated.

(d) Concerning estimated dividends related to a non-life insurance contract, multiple estimated dividends under different preconditions or different conditions will not be indicated.

(e) Estimated dividend amount that obviously exceeds the range of a reasonable and objective estimate is indicated.

(f) In cases of indicating special dividends (μ -dividends), they are indicated without distinguishing them from ordinary dividends.

(B) Concerning a life insurance contract, in cases of indicating estimated dividends, whether the amount of dividends that are calculated on the assumption that the dividend rate remains at the actual dividend rate at the last settlement of the account of a life-insurance company (for the period until the actual dividend rate is fixed, the actual dividend rate immediately before the last settlement of the account or the reasonable and objective dividend rate that is conservatively calculated; the same applies hereinafter) and the amount of dividends that are calculated on the assumption that the interest dividend (including λ dividends) rate (in cases of accumulating dividends, including the reserved dividend rate) makes the transition within the range of 1% upwards from the interest dividend rate of actual dividends at the latest

settlement of the account and downwards exceeding the range of fluctuation upwards (however, the lower limit of the interest dividend rate that is below the actual dividend rate is 0%) is indicated together.

(C) In cases of (B) above, whether documents, etc. that meet the requirements for estimated dividends as defined in (A) above are presented to the policyholder, etc.

(12) Matters related to Article 300(1)(ix) of the Insurance Business Act as applied mutatis mutandis and Article 62(1)(ii) of the Cabinet Office Order on Financial Service Intermediaries

(i) Whether an act “by unjustly taking advantage of its business position, etc.,” referring to, for example, clearly indicating the giving of advantages or disadvantages with the aim of restraining a customer’s intention using influence based on the occupational hierarchical relationship, has been implemented.

(ii) Whether an insurance intermediary agent conducts the following acts, etc. based on the purport of the provisions of Article 62(1)(ii) of the Cabinet Office Order on Financial Service Intermediaries

(A) An insurance intermediary agent significantly confuses a customer using intimidating behavior or violent language, etc.

(B) An insurance intermediary agent engages in insurance intermediary business operations by a method that draws criticism from society, such as persistently visiting or calling a customer who rejected solicitation during a time that is detrimental to the customer’s peaceful business or lifestyle.

(13) Matters related to Article 62(1)(iv) the Cabinet Office Order on Financial Service Intermediaries

(i) Whether proper measures are taken when indicating credit or the ability to pay, etc. of an insurance company, etc.

(ii) Concerning the indication of credit or ability to pay, etc. of an insurance company, etc. the following acts can be considered to be acts that conflict with Article 62(1)(iv) of the Cabinet Office Order on Financial Service Intermediaries

(A) Indicating matters related to the resources, credit, or ability to pay, etc. of an insurance company, etc. by using a value other than the value stated in the business report or interim business report as specified in Article 110 of the Insurance Business Act, the value stated in explanatory documents on the business and property status as specified in Article 111 of the Insurance Business Act, or the rating by a reliable rating agency (hereinafter collectively referred to as an “objective value, etc.”).

(B) Failure to indicate the source of the objective value, etc. that is used, the time when it is provided, the method thereof, etc. and not giving sufficient explanation or giving false explanation of the meaning thereof.

(C) Based on the fact that the indicated objective value, etc. is superior, misleading a customer to believe that payment for an insurance contract of the insurance company, etc. is guaranteed.

(D) Indicating as if the overall insurance company, etc. is superior by indicating some of its values alone.

(E) With the aim of defaming another insurance company, etc., unfairly emphasizing its inferiority in terms of its creditworthiness, solvency, etc.

(F) In cases of indicating that an insurance company, etc. participates in a business related to financial assistance, etc. performed by a policyholder protection corporation (hereinafter referred to as the “Corporation”), failure to indicate that the financial assistance performed by the Corporation is implemented under predetermined conditions and limitations and that the insurance contract is not completely guaranteed.

(14) Matters related to Article 62(1)(v) the Cabinet Office Order on Financial Service Intermediaries

In cases where the policyholder of a coinsurance contract or an affiliated sale, etc. of an insurance product between insurance companies, etc. concludes one or more insurance contracts with multiple insurance companies, etc. at the same time (including novation and renewal of a contract), whether appropriate measures are taken in relation to insurance intermediary business operations, such as defining a contract relationship between insurance companies, etc. and the policyholder who are parties to the contract so that the policyholder does not misunderstand the category of insurance and underwriting insurance company, etc.

(15) Matters related to Article 38(1)(vii) of the Act on the Provision of Financial Services

Whether measures are taken to eliminate acts that conflict with “a significantly inappropriate act in relation to financial service intermediary business operations” as defined in Article 38(1)(xii) of the Act on the Provision of Financial Services.

(16) Other

(i) Concerning insurance intermediary business operations, whether measures are taken to prevent acquiring potential customers by excessive cooperation for deposits with financial institutions due to excess demand for performance, insurance intermediary business operations by improperly using insurance premiums loan, or committing an inappropriate act, such as a contract created without the permission of a contractor, an overinsurance contract, etc.

(ii) In cases where an insurance intermediary agent develops business at multiple sites or over a wide range through the so-called franchise form, etc. with other insurance intermediary agents, whether appropriate measures are taken to prevent customers from misunderstanding that said other insurance intermediary agent engages in the same business as the insurance intermediary agent in question, such as by explaining that both are different actors and the products for selection are different in cases where the selection of insurance products that both agents handle are different than what is advertised to the customer, etc.

VI-1-1-3 Insurance Intermediary Business Operations Management System Related to a Bank, etc. Engaging in Insurance Intermediary Business Operations

VI-1-1-3-1 Treatment of Non-Disclosure Finance Information and Non-Disclosure Insurance Information

(1) In cases where a bank, etc. that is a financial service intermediary engaging in insurance intermediary business operations uses non-disclosure finance information (meaning non-disclosure finance information as defined in Article 20(2)(i), (A) of the Cabinet Office Order on Financial Service Intermediaries; the same applies hereinafter) for operations related to insurance intermediary business operations, when obtaining a customer's consent for the use of non-disclosure finance information, whether the effective period of the consent and the method of revoking it, the method of insurance intermediary business operations that uses non-disclosure finance information (distinction of face-to-face, mail, etc.), the range of non-disclosure finance information to be used (the expiry date of time deposits, information related to deposits and withdrawals of the savings account, other information related to the investment of financial assets, etc.) are clearly indicated in detail to the customer, and for example, whether necessary measures (note) are taken so that the conclusion of an insurance contract cannot be intermediated unless the customer's prior consent is obtained by an appropriate method as shown below.

(Note) For example, in cases of using non-disclosure finance information, it is possible to develop administrative procedures so that product explanations cannot be provided unless the customer's prior consent is obtained and a contract cannot be applied unless there is written consent from the customer.

(i) Face-to-face method

Concerning the use of non-disclosure finance information for operations related to insurance intermediary business operations, a method to provide an explanation in writing, or by electronic or magnetic means, or by other appropriate methods prior to the operation, to record that consent has been obtained, and to obtain consent in writing, or by electronic or magnetic means, or by other appropriate methods prior to application for a contract.

(ii) By mail

Concerning the use of non-disclosure finance information for operations related to insurance intermediary business operations, a method to send an explanatory document is sent or to provide electronic or magnetic records prior to the operations and to receive a return email stating that a customer gave consent prior to insurance intermediary business operations, such as sending an application form for insurance, etc.

(iii) Via telephone

Concerning the use of non-disclosure finance information for operations related to insurance intermediary business operations, a method to provide an oral explanation prior to the operations, to record the fact that a customer's consent is obtained, subsequently, to promptly send an explanatory document for use or to provide electronic or magnetic records (in cases of contacting a customer face-to-face after obtaining consent

via telephone, it is allowed to deliver the document or to display it by electronic or magnetic means on the spot), and to obtain the customer's consent by an appropriate method, such as in writing, etc. prior to application for a contract.

(iv) Via the Internet, etc.

Concerning the use of non-disclosure finance information for operations related to insurance intermediary business operations, a method to provide an explanation by electronic or magnetic means prior to the operation and to obtain consent by electronic or magnetic means.

(Note) Information related to a customer's property (name, address, telephone number, gender, date of birth, and occupation) is not included in the non-disclosure finance information or non-disclosure insurance information.

(2) In cases where a bank, etc. that is a financial service intermediary engaging in insurance intermediary business operations uses non-disclosure insurance information (meaning non-disclosure insurance information as defined in Article 20(2)(i)(b) of the Cabinet Office Order on Financial Service Intermediaries; the same applies hereinafter) for operations other than operations related to insurance intermediary business operations, such as the loan of funds, etc., when obtaining a customer's consent for the use of non-disclosure insurance information, whether the effective period of the consent and the method of withdrawing it, the method of operations using non-disclosure insurance information (distinction of face-to-face, mail, etc.), and the range of non-disclosure insurance information to be used (information that is learned in the course of operations related to insurance intermediary business operations, such as family structure, etc.) are clearly indicated in detail to a customer and, for example, whether measures are taken to obtain a customer's prior consent by an appropriate method equivalent to the method listed in (1), (i) through (iv) above.

VI-1-1-3-2 Guidelines for Insurance Intermediary Business Operations of a Bank, etc.

Whether the following matters are specified in the guidelines for insurance intermediary business operations specified by a bank, etc. in order to ensure fairness of insurance intermediary business operations.

In addition, whether necessary measures are taken in order to disseminate the details of the guidelines for insurance intermediary business operations, such as the delivery or explanation of guidelines for insurance intermediary business operations in writing, storefront displays, or using websites on the Internet, etc.

(1) To clearly indicate to a customer the trade name or name of the underwriting insurance company, etc. of an insurance contract for which insurance intermediary business operations are performed and to provide an appropriate explanation concerning the fact that it is the insurance company, etc. that is underwriting the insurance contract, insurance proceeds, etc. are paid by the insurance company, etc., and the existence of other

risks related to the insurance contract.

- (2) To provide information in order to enable a customer to select an insurance contract from among multiple insurance contracts based on the customer's voluntary decision.
- (3) In cases where a bank, etc. violates laws and regulations and causes harm to a customer in relation to insurance intermediary business operations, to clearly indicate that the bank, etc. is responsible for selling as an insurance intermediary agent.
- (4) To clearly indicate to a customer the contact window of a bank, etc. for complaints and consultations and details of operations that a bank, etc. engages in after concluding an insurance contract based on an entrustment contract between the bank, etc., and an insurance company, etc., and to appropriately handle customers as necessary even after the conclusion of a contract, such as appropriately handling the complaints and consultations of a customer related to an insurance contract for which insurance intermediary business operations are performed, including inquiries, etc. in relation to payment procedures of insurance proceeds, etc. in accordance with an entrustment contract, etc.
- (5) Concerning the handling of customers related to explanations and receiving complaints, or consultation during insurance intermediary business operations for the customers listed in (1) through (4) above, to develop a system in order to manage appropriate performance of handling a customer, etc., such as recording the details of consultation with the customer and to retain records, etc. related to the explanation during insurance intermediary business operations until the insurance period ends.

VI-1-1-3-3 Confirmation, etc. of Parties Restricted from Insurance Intermediation by a Bank, etc.

(1) Whether a bank, etc. takes the following measures in order to ensure that intermediation of conclusion of an insurance contract for which the parties restricted from insurance intermediation by a bank, etc. (meaning parties restricted from insurance intermediation by a bank, etc. as defined in the main sentence of Article 20(3)(i) of the Cabinet Office Order on Financial Service Intermediaries; the same applies hereinafter) are a policyholder or an insured person (excluding renewal and novation (excluding those including expansion of insurance proceed amounts and other details of payment (excluding those based on increases in the value of the subject matter of the insurance contract and other circumstances equivalent thereto) or the extension of the insurance period, and including re-novation) of those listed in Article 20(1)(i) and (iii) of the Cabinet Office Order on Financial Service Intermediaries and insurance contracts that have been concluded (limited to contracts for which the bank, etc. or its officers or employees performed intermediation of the conclusion by obtaining fees and other remuneration)) is not performed by receiving fees and other remuneration.

(i) Measures where explanatory documents related to operations to confirm with a customer if the customer falls under a party restricted from insurance intermediation by a bank, etc. are delivered or provided by an alternative electronic or magnetic means in advance and whether the customer falls under a party restricted from insurance intermediation by a bank, etc. is checked based on the notification of the customer.

(ii) Measures where prior to sending a contract application form and other documents related to an insurance contract, for which insurance intermediary business operations are performed, to an underwriting insurance company, etc., the information, such as the place of work, etc., of the customer that is obtained from the customer in the course of insurance intermediary business operations with the information related to borrowers of the bank, etc. in order to check that the customer does not fall under a party restricted from insurance intermediation by a bank, etc.

(iii) In cases where it is confirmed that a customer falls under a party restricted from insurance mediation by a bank, etc. by the aforementioned measures, development of a system where insurance intermediation fees and other remuneration related to the insurance contract are not received from an insurance company, etc. or are returned ex-post facto.

(Note 1) Concerning the measures defined in (i) and (ii) above, care should be taken to ensure that a customer is not forced to provide information on a place of work, etc. If it is not confirmed whether the customer falls under a party restricted from insurance mediation by a bank, etc. by confirmation pursuant to the measures defined in (i) and (ii) above, the customer is not deemed to fall under the party unless there are special circumstances.

(Note 2) Concerning checks by verifying with the information related to borrowers of a bank, etc. defined in (ii) above, it can be performed also by the method of verifying with a database related to a borrower (requiring at least annual renewal; if there is an existing database, it can be used), the method of implementing consolidated management of loan information by headquarters, etc. and receiving a

request for verification from branches, and by other methods based on the size and characteristics of the bank, etc.

(Note 3) An act by which a bank, etc. establishes an organization where officers or regularly-hired employees of a corporation, etc. to which a bank, etc. loans funds necessary for business and performs insurance intermediary business operations for the organization, is substantially deemed to be insurance intermediary business operations to the corporation, etc., unless there are special circumstances.

(2) When a bank, etc. accepts entrustment of insurance intermediary business operations from an insurance company, etc., whether the bank, etc. determines the appropriateness of accepting entrustment of the operations by paying full attention to, for example, the soundness of operations and finance of the insurance company, etc., the development status of sales and management system for the bank, etc. that is a financial service intermediary engaging in insurance intermediary business operations, and details of insurance products for which the bank, etc. will engage in insurance intermediary business operations, in order not to harm the sound and appropriate management of other operations of the bank, etc. (including operations entrusted by another insurance company, etc.).

VI-1-1-3-4 Matters Related to Article 20(3)(i) of the Cabinet Office Order on Financial Service Intermediaries

In “increases in the value of the subject matter of the insurance and other circumstances similar thereto” as specified in the main clause of Article 20(3)(i) of the Cabinet Office Order on Financial Service Intermediaries, for example, the following circumstances are included.

- (1) Increases in the value of the subject matter of the insurance
- (2) Replacement of the subject matter of the insurance
- (3) Expansion of insured range
- (4) Increases in the number of insured persons in group insurance

VI-1-1-3-5 Matters Related to Article 62(1)(viii) of the Cabinet Office Order on Financial Service Intermediaries

When intermediating the conclusion of a contract for housing-related debt repayment insurance or housing-related credit life insurance for a customer whose application for a housing loan is accepted, it should be kept in mind that it is necessary to perform the intermediation by providing an explanation that the conclusion of the insurance contract is not a condition for the housing loan by delivering a document or by alternative electronic or magnetic means.

VI-1-1-3-6 Matters Related to Article 62(1)(x) of the Cabinet Office Order on Financial Service Intermediaries

In cases of not allowing a customer to apply for a loan intentionally, in order to perform insurance intermediary business operations, although there is customer demand for funds, it is regarded as a “case where a customer applies for a loan of funds to the bank, etc.”

VI-1-1-3-7 Chief Compliance Manager Related to Insurance Intermediary Business Operations of a Bank, etc.

Whether a bank, etc. has assigned personnel with knowledge of laws and regulations related to insurance intermediary business operations and insurance contracts as a person responsible related to operations for ensuring compliance with laws and regulations, etc. as specified in Article 20(2)(iii) of the Cabinet Office Order on Financial Service Intermediaries (including a supervising manager who directs the person responsible and supervises and manages operations to ensure compliance with laws and regulations, etc. related to insurance intermediary business operations) so that operations to ensure compliance with laws and regulations, etc. related to insurance intermediary business operations as specified in the same item are performed without fail.

VI-1-1-3-8 Internal Audits Related to Insurance Intermediary Business Operations of a Bank, etc.

Whether a bank, etc. has assigned personnel with knowledge, etc. related to laws and regulations, etc. related to insurance intermediary business operations and insurance contracts in the internal audit department so that internal audits of the bank, etc. are performed without fail from the perspective of ensuring the sound and appropriate management of operations related to insurance intermediary business operations.

VI-1-1-3-9 Matters Related to Guidelines of the Fair Trade Commission

Whether a bank, etc. refers also to “Part II, Section 2. 2. Unfair trade practice related to solicitation of insurance by a bank, etc.” in “Unfair Trade Practice in Association with the Relaxation of Business Type Classification of Financial Institutions and the Expansion of Operation Range” (December 1, 2004, the Fair Trade Commission), and manages operations by paying full attention to unfair trade practices related to insurance intermediary business operations.

VI-1-1-4 Direct Payment Service

In cases where an insurance intermediary agent indicates that a direct payment service is available by selecting a person who receives insurance proceeds when engaging in insurance intermediary business operations and indicates the content and level of the goods and services to be provided by a partnered business operator, the insurance intermediary agent shall check whether the information as specified in Article 56(1)(v) of the Cabinet Office Order on Financial Service Intermediaries is provided while paying attention to the following points.

- (1) Whether the following information is provided to a policyholder or an insured person during insurance intermediary business operations.
 - (i) They can receive insurance proceeds (they are not obliged to purchase goods and services from a partnered business operator or to use a direct payment service).
 - (ii) Selection criteria of partnered business operators (if a partnered business operator has been determined, the name of the partnered business operator shall also be displayed).
 - (iii) In cases of receiving a direct payment service, if insurance proceeds are less than compensation for goods and services, the customer needs to pay the shortfall (if there is a surplus, the surplus may be received as insurance proceeds).
 - (iv) Cases estimated as a situation where it is difficult to introduce a partnered business operator that can provide planned goods and services.
- (2) Whether an insurance intermediary agent has received introduction fees and other remuneration from a policyholder, insured person, a person who is to receive insurance proceeds, or a partnered business operator.
- (3) Whether an insurance intermediary agent explains to a person who is to receive insurance proceeds again that it is not obliged to purchase goods and services or receive direct payment service from a partnered business operator when an insured event occurs.

VI-1-2 Customer Protection, etc.

VI-1-2-1 Accountability for Customers

An insurance intermediary agent needs to perform operations appropriately and to ensure the sound and appropriate management of its operations in order to facilitate customer protection.

For this reason, the insurance intermediary agent is required to appropriately implement the following measures, etc. and to inspect the suitability, etc. of the measures, etc. ex-post facto through audits, etc. by the internal audit department and to facilitate corrections as necessary.

VI-1-2-1-1 Points to Note in Facilitating Customer Protection

- (1) Whether an insurance intermediary agent engages in fair administration for customers.
- (2) When transacting with a policyholder, whether the insurance intermediary agent provides appropriate and full explanation of the details, etc. of the transaction to the policyholder.

- (3) Whether an insurance intermediary agent takes into account the fact that it is important for insurance intermediary business operations for elderly persons to provide appropriate and full explanations, specifies the definition of elderly persons in its internal rules, etc., considers the characteristics, etc. of elderly persons and products, and then specifies in detail and implements the method of insurance intermediary business operations, including tailored activities and activities contributing to the prevention and early detection of problems.

For example, whether appropriate activities, such as taking the following measures, have been implemented as activities for the aforementioned requirements.

- (i) A method to request attendance of a relative, etc. during insurance intermediary business operations.
- (ii) A method of performing insurance intermediary business operations by multiple insurance intermediaries during insurance intermediary business operations.
- (iii) A method to establish multiple opportunities for insurance intermediary business operations in order to secure time necessary for examining the application for an insurance contract.
- (iv) A method to check that the content of the product, etc. meets the intention of an elderly person by a person other than the person who performed insurance intermediary business operations by calling, etc. the elderly person after acceptance of an application form for an insurance contract.

In addition, whether appropriate activities are performed, such as details of insurance intermediary business operations are recorded (audio recordings, recordings on a report, etc.) and retained after considering the characteristics of elderly persons and products.

Whether the appropriateness, etc. of these activities related to insurance intermediary business operations for elderly persons are inspected.

- (4) Since new insurance intermediary business operations by an insurance intermediary agent via telephone (including an act of soliciting the purchase of an insurance policy related to a group insurance for which the insurance intermediary agent performed insurance intermediary business operations and other acts for soliciting a customer to purchase the insurance policy) is not performed face-to-face or is performed at unexpected times for the customer, etc., complaints, etc. are particularly likely to arise. Therefore, based on said characteristics, etc., whether an insurance intermediary agent who performs said acts repeatedly and continuously specifies in detail the method of insurance intermediary business operations, including activities contributing to the prevention and early detection of problems, and appropriately provides training,

management, and instruction to insurance intermediaries.

In addition, whether the appropriateness, etc. of these activities is examined and they are reviewed as necessary. Concerning the aforementioned activities, whether appropriate activities are performed including the following measures.

- (i) Speaking scripts, etc. that specify the content to be explained are developed and thorough control is provided.
 - (ii) If a customer intends to decline further phone calls, thorough control is provided not to call the customer in the future.
 - (iii) Details of phone conversations are recorded and retained.
 - (iv) Causes of complaints, etc. are analyzed, and preventive measures against recurrence are established and disseminated.
 - (v) Details of phone conversations (including those with which a contract did not reach a conclusion) are checked by a person other than the person who performed insurance intermediary business operations and actions are taken based on the check results.
- (5) Whether customer information is not disclosed to a third party, excluding cases where it is legally allowed and where the customer provided consent.

VI-1-3 Securing Appropriate Indications

- (1) Whether a system to appropriately disclose information has been established by fully taking into account the purport of information disclosure.
- (2) Whether measures are taken concerning materials, etc. for insurance intermediary business operations (including advertisements) to secure appropriate indications based on the characteristics of indication media and products.
- (3) Whether internal rules, etc. to secure proper indications are appropriately established.
 - (Note) Whether internal rules, etc. are established based on the following matters, etc. so that insurance periods, content of insurance, underwriting conditions, insurance premium rates, and insurance premiums, etc. are appropriately indicated.
 - (i) In cases of indicating superiority related to the content of insurance of an insurance product, whether the indication may cause a policyholder, etc. to misunderstand that the product is significantly superior by not indicating matters inseparable from the superiority together in an easy-to-understand manner.

For example, in cases where, although there are the predetermined restriction conditions on the content of insurance of insurance products as listed below, said conditions are not indicated, or where a policyholder, etc. may overlook said indication of conditions, such as when said conditions are indicated in very small

letters, are displayed over a very short period, or indicated away from the indication where the contents of insurance are exaggerated without clearly indicating references, etc., it should be kept in mind that it may cause a misunderstanding that the content of the insurance product is significantly superior than the actual status.

(A) In cases where there is a predetermined period without security after conclusion of a contract for all or part of the grounds for payment.

(B) In cases where the amount of insurance proceeds (benefits) decreases or extinguishes based on conditions, such as the age of the insured person, number of years after concluding the contract, number of days of hospitalization, subject disease, etc.

(C) In cases where advanced medical care is set as grounds for payment, there may be cases that are not subject to payment of benefits depending on medical practices, medical institutions, indications, etc.

In addition, in cases where information that is not directly related to superiority related to the content of insurance of insurance products is indicated as if they are superior, it should be kept in mind that the indication may cause a misunderstanding that the products are significantly superior than the actual product.

(ii) Whether the indication causes the misunderstanding of a policyholder, etc. when indicating the advantageous transaction conditions of an insurance product, by not indicating restrictive conditions, etc. together in an easy-to-understand manner.

For example, concerning the indication of insurance premiums, in cases where insurance premiums for young people, etc., who cannot be considered to be a main policyholder group are used as an example, the indication of conditions, such as the age of people subject to the contract, etc. is indicated in a significantly small size, and therefore the policyholder, etc. may overlook it, it should be kept in mind that the insurance premiums may be applied to a policyholder, etc. in other age groups, etc. and may cause a misunderstanding if it is significantly less expensive than the actual amount of insurance premiums.

In addition, in cases where information that is not directly related to advantages related to transaction conditions of insurance products is indicated as if they are advantageous, it should be kept in mind that the indication may cause misunderstanding that the products are significantly more advantageous than the actual product.

(iii) Whether indications related to insurance products and services, etc. are based on objective facts.

For example, in cases of using superlatives or other terms that directly convey a ranking, terms that directly convey uniqueness, or terms that mean there is relative superiority, whether the alleged content is objectively verified.

In addition, when indicating objective facts, whether the indication is likely to have a policyholder, etc. recognize incorrect facts, such as the following examples, etc., by indicating or exaggerating part of said objective facts alone.

(A) Whether the indication may have a policyholder recognize more than the amount of medical care

expenses to be paid by the policyholder by displaying an amount that does not reflect the payment based on high-cost medical expense benefits.

(B) Whether TV commercials, etc. do not fully ensure visibility but display important matters as a note on the screen.

(iv) In cases of using superlatives or other terms that directly convey a ranking in the industry, terms that directly convey uniqueness, or terms that mean there is relative superiority for indications related to insurance products and services, etc., whether the basis of the alleged content is also clearly indicated.

For example, in cases of using terms such as “best,” “worst,” “best in Japan,” “number one,” “only by our company,” “first in the industry,” “not found at other companies,” “wide,” “the lowest level,” “comparatively cheap,” etc., it is necessary to indicate the investigation method, source, or preconditions for the basis of the term.

(v) In cases of indicating an insurance product that is sold by a bank, etc. (including an indication by a bank, etc.), whether it is appropriately indicated that the product is the insurance product of an insurance company, etc. so that, for example, it does not cause a misunderstanding that it is a bank product, such as a time deposit, etc.

(4) Whether measures are taken for indication to remind customers of the importance of reading documents, etc. stating the contract outline and advisory information depending on the indication media and content of the indication (including electronic or magnetic records recording the matters to be stated in said document).

(5) Whether a sufficient review system has been developed so that proper indication is implemented, including legal checks, etc. by a department in charge of compliance with laws and regulations, etc.

In addition, whether the review is developed in consideration of the following points.

(i) Concerning materials, etc. for insurance intermediary business operations, whether a review related to the details of the indication is implemented thoroughly by the central management system at the headquarters, etc.

(ii) Whether general conditions, the contract outline, advisory information, pamphlets, and brochures for concluding a contract, etc. are checked in order to ensure consistency of the content of indications.

(iii) Whether the indication of reserve rates, etc. in the materials, etc. for insurance intermediary business operations is checked from the perspective of increasing openness and objectiveness.

(v) In cases where problems, etc. with an indication are indicated in the complaints, etc. of a policyholder, etc., whether the content of the problem is analyzed and appropriate corrective actions are taken if a problem is found.

(6) The following points concerning Article 300(1)(vi) and (vii) of the Insurance Business Act as applied *mutatis mutandis* related to the explanation of merchantability (including comparative advertisements, etc.) should be

kept in mind.

- (i) Indications related to insurance contracts shall be handled in accordance with “VI-1-1-2, (10).”
- (ii) Indications of estimated dividends shall be handled in accordance with “VI-1-1-2, (11).”

VI-1-4 Others

VI-1-4-1 Relationship with Other Insurance Agents, etc.

In light of the purport of the prohibition on concurrent operation, etc. (Article 11(3) of the Act on the Provision of Financial Services) of a financial service intermediary engaging in insurance intermediary business operations and insurance agents (meaning “insurance agents” as defined in Article 2(23) of the Insurance Business Act) and insurance brokers (meaning “insurance brokers” as defined in Article 2(25) of the Insurance Business Act) and the duty of good faith of a financial service intermediary (Article 24 of the Act on the Provision of Financial Services), the following matters should especially be kept in mind in order to secure the appropriate operation and management of insurance intermediary agents.

VI-1-4-1-1 Relationship with Other Insurance Agents, etc.

(1) Entrustment of insurance intermediary business operations

- (i) Whether an insurance intermediary agent or its insurance intermediary entrusts intermediation of conclusion of an insurance contract to a third party or pays fees, remuneration, and other compensations (hereinafter referred to as “fees, etc.” in VI-1-4-1-1, (1)) related to intermediation of conclusion of an insurance contract.
- (ii) Whether an insurance intermediary agent or insurance intermediary accepts entrustment of an intermediation of conclusion of an insurance contract by an insurance agent or insurance broker or receives payment of fees, etc. related to the intermediation of conclusion of an insurance contract.

(2) Joint acts

- (i) Whether an insurance intermediary agent or its insurance intermediary that engages in insurance intermediary business operations based on the entrustment by a customer implements a joint treatment of the same contract with an insurance company, etc., insurance agent, or another insurance intermediary agent (excluding cases where insurance intermediary business operations are performed based on the entrustment by a customer).
- (ii) Whether an insurance intermediary agent or its insurance intermediary that engages in insurance intermediary business operations based on the entrustment by a customer has an insurance company, etc., insurance agent, or another insurance intermediary agent (excluding cases where insurance intermediary business operations are performed based on the entrustment by a customer) succeed or perform part of

administrations related to the insurance intermediary business operations in principle.

- (iii) Whether an insurance intermediary agent or its insurance intermediary that engages in insurance intermediary business operations based on the entrustment of an insurance company, etc. implements joint treatment of the same contract with an insurance broker or another insurance intermediary agent (excluding cases where insurance intermediary business operations are performed based on the entrustment by an insurance company, etc.).
- (iv) Whether an insurance intermediary agent or its insurance intermediary that engages in insurance intermediary business operations based on the entrustment of an insurance company, etc. has an insurance broker or another insurance intermediary agent (excluding cases where insurance intermediary business operations are performed based on the entrustment by an insurance company, etc.) succeed or perform part of the administration related to the insurance intermediary business operations in principle.

(3) Sharing a store

Whether an office where an insurance intermediary agent engaging in insurance intermediary business operations based on entrustment by a customer performs the insurance intermediary business operations is established in the same building as an office for insurance solicitation by an insurance agent or an insurance broker or for insurance intermediary business operations by another insurance intermediary agent. However, in cases where measures are fully taken so that customers are not confused, such as separate compartmentalization of exclusive areas and compartmentalization of common areas from the entrance to each office, it is deemed to be that there are basically no problems (in this case, refer also to III-2-3).

(4) Information provision

Whether an insurance intermediary agent or its officer or employee provides non-disclosure information that they obtained from a customer to an insurance agent, insurance broker, or another insurance intermediary agent. In addition, whether an insurance intermediary agent or its officer or employee receives the provision of non-disclosure that an insurance agent, insurance broker, or another insurance intermediary agent obtained from a customer. However, if individual prior consent from the customer is obtained for the provision of information, it is considered to have no problem in principle.

VI-1-4-1-2 Relationship with Relevant Agents, etc.

In cases where an insurance intermediary agent (limited to a person who engages in insurance intermediary business operations based on entrustment by a customer) has an insurance agent (meaning an insurance agent who substantially holds 25% or more of voting rights of the insurance intermediary agent or substantially 25% or more of whose voting rights are held by the insurance intermediary agent) or another insurance intermediary agent

(limited to a person who is another insurance intermediary agent who substantially holds 25% or more of the voting rights of the insurance intermediary agent or substantially 25% or more of whose voting rights are held by the insurance intermediary agent and who may engage in insurance intermediary business operations based on the entrustment by an insurance company, etc.) who have a predetermined capital relationship with an insurance intermediary agent (hereinafter these persons are referred to as “relevant agents, etc.”), whether the insurance intermediary agent has designed a system so that neither the terminal of the insurance intermediary agent nor terminal of the relevant agent, etc. can access each other’s information in relation to the sharing of a computer.

VI-1-4-1-3 Relationship with an Insurance Company, etc.

(1) An insurance intermediary agent who engages in insurance intermediary business operations based on entrustment by a customer is required to intermediate the conclusion of an insurance contract from an independent standpoint from the insurance company, etc. Therefore, the following points in the relationship with the insurance company, etc. should especially be kept in mind.

(i) Sharing a store

Whether the office where insurance intermediary business operations are performed is established in the same building as the office of an insurance company, etc. However, in cases where measures are fully taken so that customers are not confused, such as separate compartmentalization of exclusive areas and compartmentalization of common areas from the entrance to each office, it is deemed to be that there are basically no problems (in this case, refer also to III-2-3).

(ii) Provision of convenience

Whether an insurance intermediary agent who engages in insurance intermediary business operations based on entrustment by a customer receives a loan under significantly different conditions in light of normal conditions from an insurance company, etc., or requests or receives provision of a convenience, such as the provision, etc. of money, articles, or services under any name.

(iii) Personnel exchange

Whether an insurance intermediary agent who engages in insurance intermediary business operations based on the entrustment of a customer accepts the dispatch of an officer or employee of an insurance company, etc. as an insurance intermediary of the insurance intermediary agent.

(Note) The fact that, concerning an insurance intermediary agent who engages in insurance intermediary business operations based on entrustment by an insurance company, etc., an officer or an employee of the insurance company, etc. cannot also be an officer of the insurance intermediary agent or an employee who intermediates the conclusion of an insurance contract (Article 15(v) and Article 38(1)(iii) of the Act on the Provision of Financial Services) should be kept in mind.

(2) Concerning an insurance intermediary agent who engages in insurance intermediary business operations based

on entrustment by an insurance company, whether the insurance intermediary agent implements indications that lead a customer to misunderstand the standpoint of the insurance intermediary agent to intermediate the conclusion of an insurance contract for the insurance company, etc.

(Note) If an indication of “fairness and neutrality” alone is used, it should be kept in mind that a customer may misunderstand that “the insurance intermediary agent is in a neutral position between the insurance company, etc. and the customer.”

VI-1-4-2 Closing Document

The template of a closing document as defined in Article 298 of the Insurance Business Act as applied mutatis mutandis shall be specified in Appended Form VI-1.

VI-1-5 Supervisory Methods and Measures

Concerning problems related to the system of an insurance intermediary agent concerning the appropriateness of insurance intermediary business operations that are identified through daily supervisory operations and notifications of problematic conduct, etc., the FSA shall identify the voluntary business improvement status of the insurance intermediary agent by conducting in-depth interviews and requesting reports based on the provisions of Article 35(1) of the Act on the Provision of Financial Services as necessary. In addition, if it is found that there is a major problem from the perspective of securing the sound and appropriate operation of the financial service intermediary business or customer protection, the FSA shall take action, such as issuing a business improvement order based on the provisions of Article 37 of the Act on the Provision of Financial Services. Furthermore, if a serious and malicious act violating laws and regulations, etc. is found, the FSA shall examine the actions necessary, including the issuance of an order to suspend business based on the provisions of Article 38(1) of the Act on the Provision of Financial Services.

VI -2 Administrative Procedures (Insurance Intermediary Business Operations)

VI-2-1 Registration

VI-2-1-1 Descriptions of Registration Application Form and Attachments

- (1) A person must not apply for two or more registrations using two or more trade names or names.
- (2) The “documents defining the abilities” as specified in Article 12(iii) of the Cabinet Office Order on Financial Service Intermediaries shall be materials proving that the person has abilities sufficient for properly performing operations related to insurance intermediary business operations pursuant to the provisions of VI-2-1-2, (1). In addition, III-3-1-3, (7) shall be referred to.
- (3) Concerning an insurance intermediary agent, whether the category of the insurance to be handled is stated in “the content and method of operations” (Article 11(i) of the Cabinet Office Order on Financial Service Intermediaries) in “documents stating what is provided for by Cabinet Office Order as the details and method of the financial service intermediary business operations” (Article 13(2)(iii) of the Act on the Provision of Financial Services) shall be checked. In addition, the category of the insurance to be handled shall be as stated below.
 - (i) An insurance contract where a life insurance company (including a foreign life insurance company, etc. and an underwriting member of a specified corporation that is licensed as set forth in Article 219(4) of the Insurance Business Act) is an insurer (hereinafter the insurance contract is referred to as “life insurance contract”).
 - (ii) An insurance contract where a non-life insurance company (including a foreign non-life insurance company, etc. and an underwriting member of a specified corporation that is licensed as set forth in Article 219(5) of the Insurance Business Act) is an insurer (including an insurance contract where a foreign insurer is an insurer and that is specified in Article 39-2 of the Enforcement Order of the Insurance Business Act; hereinafter the insurance contract is referred to as a “non-life insurance contract”).
 - (iii) An insurance contract where a small amount and a short term insurer is the insurer (hereinafter the insurance contract is referred to as a “small amount and short term insurance contract”).

VI-2-1-2 Refusal of Registration

- (1) The “abilities sufficient for appropriately performing financial service intermediary business operations” as defined in Article 15(i)(p) of the Act on the Provision of Financial Services shall be determined by whether all officers and employees who engage in insurance intermediary business operations in cases where the registration applicant is a corporation, and an individual and all employees who engage in insurance intermediary business operations in cases where the registration applicant is an individual, pass a test for laws

and regulations related to insurance intermediary business operations, knowledge related to insurance contracts, and the ability to perform insurance intermediary business operations depending on the category of insurance to be handled.

- (2) A significantly inappropriate act as defined in Article 15(v)(c)2. of the Act on the Provision of Financial Services refers to an act that fails to protect policyholders, etc., such as unlawfully taking advantage of the ignorance of policyholders.

VI-2-2 Treatment of Notification of Officers or Employees Engaging in Insurance Intermediary Business Operations

- (1) It should be kept in mind that officers and employees who require notification pursuant to the provisions of Article 74 of the Act on the Provision of Financial Services are required to be persons who meet the requirements defined in VI-1-1-1, (3), (i), (a) through (c).
- (2) If the name of officers or employees or the office where they work is changed, a notification must be submitted.
- (3) Concerning the application of Article 74 of the Act on the Provision of Financial Services, if the notification is submitted at the same time as registration of insurance intermediary agent, the registration date is considered to be the notification date. If it is different from the registration date, the day when the notification is submitted to the director-general of the local finance bureau, etc. (in cases of submitting a notification by mail, the day following the date of sending the notification) shall be considered to be the notification date.

VI-2-2-1 Guidelines for Descriptions of a Notification of Officers or Employees

Guidelines for description of a notification of officers or employees as specified in Appended Form No. 9 of the Cabinet Office Order on Financial Service Intermediaries shall be as stated below.

- (1) “Date”

If the notification is submitted at the same time as the registration of an insurance intermediary agent, the date of the registration application form shall be stated. If it is different from the registration date, the notification date shall be the date when the notification is submitted to the director-general of the local finance bureau, etc. and if a notification form is sent by mail, it shall be the day following the date of sending the notification.

- (2) Registration number

If the notification is submitted at the same time as the registration of an insurance intermediary agent, it shall not be necessary to state it.

(3) "Trade name or name"

A corporation shall state its trade name or name in the field for "Trade name or name" and an individual shall state its name in the field for "Name."

(4) "Name"

The name of the person who has grounds for notification shall be stated.

(5) "Date of birth"

The date of birth of the person who has grounds for notification shall be stated.

(6) "Date on which the grounds for notification occurred"

If the grounds for notification are "new," the registration date shall be stated; if it is an "addition," the notification date to the director-general of the local finance bureau, etc. shall be stated; and if it is an "abolishment" or "change of surname," the date on which the grounds for notification occurred shall be stated.

(7) "Grounds"

Applicable grounds shall be circled.

(8) "Remarks"

(i) In cases of a change of name, the former name shall be stated.

(ii) The name of the office to which the officer and employees belong and the category of insurance contract that can be handled shall be stated.

VI-2-2-2 Attachments to a Notification of Officers or Employees

If the grounds for notification in the written notification of officers or employees as specified in Appended Form No. 9 of the Cabinet Office Order on Financial Service Intermediaries fall under "new" or "addition," the "documents defining the abilities" as specified in Article 12(iii) of the Cabinet Office Order on Financial Service Intermediaries shall be attached.

VII Supervisory Evaluation Points and Various Administrative Procedures (Securities, etc. Intermediary Business Operations)

VII -1 Suitability of Operations (Securities, etc. Intermediary Business Operations)

VII-1-1 Compliance System with Laws and Regulations, etc.

A financial service intermediary conducting securities, etc. intermediary business operations (referred to as a “securities, etc. intermediary” in VII) functions as a market broker and fulfills the role of allowing smooth transactions when an individual investor, an institutional investor, or a company, etc. that is an issuing entity of securities accesses the financial instruments exchange market. These operations are accompanied by a highly public nature. A securities, etc. intermediary is required to facilitate proper customer protection, perform highly reliable operations, and thereby, fulfill market intermediary functions efficiently and stably. In addition, for this reason, a securities, etc. intermediary is required to manage sound and appropriate operations under high self-discipline as a market player.

The compliance system with laws and regulations, etc. of the securities, etc. intermediary is handled from the perspective of system development in III-2-1 and by a supervising method in principle. In addition, broad-ranging inspections shall be implemented, including the compliance status of self-regulation rules that were established from the perspective of appropriate fulfillment of market intermediary functions, etc.

VII-1-2 Management System of Representatives

It is important for a securities, etc. intermediary to identify the actual status of solicitation by representatives and to thoroughly control their compliance with laws and regulations, etc. from the perspective of ensuring the proper performance of solicitation in accordance with customer property, etc. When controlling them thoroughly, the following points should especially be kept in mind.

(1) Major supervisory view points

(i) Identifying the actual status of solicitation by representatives and their correction

(A) Concerning identification of the actual status of solicitation, for example, whether a person responsible, etc. for management in each marketing department strives to identify the actual status through face-to-face meetings with a customer and by checking records related to correspondence for solicitation with a customer as necessary and takes appropriate measures.

(B) In the internal control department, whether specific methods related to identification of the actual status of solicitation, etc. as defined in (A) above are specified, the method is disseminated thoroughly to

officers and employees and the status is identified and inspected, the method is reviewed, and a system to ensure effectiveness has been established.

(ii) Thorough control of the awareness of officers and employees to comply with laws and regulations, etc.

(A) Concerning thorough control of the awareness of officers and employees to comply with laws and regulations, etc., whether case study training and external training, etc. in consideration of the objective of the training and target persons, etc. are provided and the awareness of officers and employees to comply with laws and regulations, etc. is increased.

(B) In the internal control department, whether the details and implementation status of trainings are identified and inspected, the content, etc. are reviewed, and other measures to increase the effectiveness are taken.

(2) Supervisory methods and measures

Concerning problems related to the management system of representatives of a securities, etc. intermediary that are identified through daily supervisory operations and notifications of problematic conduct, etc., the FSA shall identify the voluntary business improvement status of the securities, etc. intermediary by conducting in-depth interviews and requesting reports based on the provisions of Article 35(1) of the Act on the Provision of Financial Services as necessary. In addition, if it is found that there is a major problem from the perspective of securing the sound and appropriate operation of the financial service intermediary business or customer protection, the FSA shall take action, such as issuing a business improvement order based on the provisions of Article 37 of the Act on the Provision of Financial Services. Furthermore, if a serious and malicious act violating laws and regulations, etc. is found, the FSA shall examine the actions necessary, including the issuance of an order to suspend businesses based on the provisions of Article 38(1) of the Act on the Provision of Financial Services.

VII-1-3 Regulation of Advertisements, etc.

Indication of advertisements, etc. (meaning advertisement, etc. as specified in Article 83(1) of the Cabinet Office Order on Financial Service Intermediaries; the same applies hereinafter.) that is implemented by a securities, etc. intermediary falls under an introduction of solicitation of customers for investment, and the provision of information through clear and accurate indication is essential from the perspective of securing the proper performance of solicitation for investment. The following points should especially be kept in mind when providing thorough control thereof.

(Note) Advertisements, etc. include the provision of information to many persons through materials for solicitation, websites on the internet, mail, correspondence mail, facsimile, emails, fliers, pamphlets, etc.

Whether an act actually falls under advertisement, etc. needs to be determined specifically based on actual status, but not appearance, such as correspondence via email, etc. with investors, advertising messages, provision of promotional materials stating logos, etc.

(1) Major supervisory view points

(i) Consideration of important matters that may affect customer decisions

(A) Whether there is an indication misleading a customer to think that fees (regardless of the name under which it is indicated, such as remuneration, costs, etc., including compensation that the customer should pay for a specific financial service contract as the same category as fees) that the customer pays are free or significantly lower than the actual amount.

(B) If the principal is likely to have a deficit, whether that fact is clearly indicated.

(ii) Clear and accurate indication

In cases of indicating the items specified in Article 37 of the Financial Instruments and Exchange Act as applied mutatis mutandis, the following points specifically should be kept in mind when determining whether clear and accurate indication as specified in Article 83(1) of the Cabinet Office Order on Financial Service Intermediaries is implemented.

(A) In comparison with characters related to other matters indicated in the advertisement, etc., whether the size, shape, and color of the characters used are indicated in an unlawfully discreet manner.

In particular, whether the following matters are indicated in a size that is not significantly different from the largest characters and numbers in an advertisement: in cases where a loss may be incurred due to fluctuation of the indicator, such as interest rates, quotations, etc., the indicator, the fact that loss may be incurred, and the reasons thereof; and in cases where loss exceeding the principal may be incurred, the direct cause, the fact that loss exceeding the principal may be incurred, and the reasons thereof.

(B) Whether indications related to the advantages of transactions alone are exaggerated and indications related to the disadvantages are discreet.

(C) In cases of indicating the advertisements, etc. on a screen, whether the necessary time of indication is secured so that all the matters to be indicated are understood.

(iii) Consideration of misleading advertisement

(A) Whether the investment will of a customer is unfairly stipulated by using assertive expressions on the trend of prices of securities, etc., values, amount of compensation, etc. or by misleading a customer to believe that profits can be gained without fail.

(B) Whether it is indicated that investment yields are guaranteed or all or part of losses will be borne or an indication misleading a customer to believe that it does so is made.

(C) In cases where the application period, target number of applicants, etc. are not limited, whether an

indication misleading a customer to believe that they are limited is made.

(D) Whether an indication misleading a customer to believe that registration, etc. means that the Prime Minister, the Commissioner of the Financial Services Agency, or other public organizations recommends the securities, etc. intermediary in question or guarantees the content of advisements, etc. thereof.

(E) Whether an indication is made in a manner of violating or being likely to violate the Act against Unjustifiable Premiums and Misleading Representations, prefectural ordinances based on the Outdoor Advertisement Act, or other laws and regulations.

(F) Whether an indication is made in a way that it may receive social criticism for being over promotional.

(iv) Solicitation by gathering customers.

(A) In cases of holding a seminar, etc. (regardless of the title, such as a lecture, workshop, briefing, etc.; the same applies hereinafter), gathering general customers, etc., and soliciting the general customers for conclusion of a financial service contract (including explanation of specific products with the aim of solicitation), whether it is clearly indicated in advance that it has the aim of soliciting the conclusion of a financial service contract in advertisements, etc. related to the seminar, etc. and invitations, etc. to be sent.

(B) Regarding the status, “it is clearly indicated in advance that it has the aim of soliciting the conclusion of a financial service contract,” as stated in (A) above, it is not sufficient to clearly indicate that the title of the seminar, etc. is related to financial service intermediary business operations but it must be indicated that there is the aim of solicitation.

(v) Advertisement review system

From the perspective of compliance with Article 37 of the Financial Instruments and Exchange Act as applied *mutatis mutandis*, whether the person in charge of advertisement review, who reviews advertisements, etc., is assigned and a proper review is implemented based on the review criteria.

(2) Supervisory methods and measures

Concerning problems related to advertisements, etc. of a securities, etc. intermediary that are identified through daily supervisory operations and notifications of problematic conduct, etc., the FSA shall identify the voluntary business improvement status of the securities, etc. intermediary by conducting in-depth interviews and requesting reports based on the provisions of Article 35(1) of the Act on the Provision of Financial Services as necessary. In addition, if it is found that there is a major problem from the perspective of securing the sound and appropriate operation of the financial service intermediary business or customer protection, the FSA shall take action, such as issuing a business improvement order based on the provisions of Article 37 of the Act on the Provision of Financial Services. Furthermore, if a serious and malicious act violating laws and regulations,

etc. is found, the FSA shall examine the actions necessary, including the issuance of an order to suspend businesses based on the provisions of Article 38(1) of the Act on the Provision of Financial Services.

VII-1-4 Solicitation and Explanation System for Customers

Since persons who have insufficient investment knowledge, experience, etc. are included among general customers, accountability must be executed, such as a securities, etc. intermediary accurately and fairly disclosing information that serves as materials for making decisions to customers, etc. Consequently, the following points should be kept in mind when providing an explanation, etc. to a customer. In this case, a securities, etc. intermediary shall appropriately take into account role sharing with the financial instruments business operator or registered financial institution with which a customer intends to conclude a contract concerning the provision and explanation of information to the customer, and shall give consideration so that the explanation, etc. is not handled mechanically or uniformly.

(Note) It should be kept in mind that “explanation, etc.” includes explanations in a seminar, etc. where customers are gathered by holding the seminar, etc. and substantial solicitation is implemented.

(1) Major supervisory viewpoints for the solicitation and explanation system

(i) Development of the explanation system based on the principle of suitability

In cases of delivering pre-contract documents, etc., whether a system has been developed where the method and degree necessary for a customer to understand the content are selected in light of the customer’s knowledge, experience, and property status, and the objective of transaction, and appropriate explanation is provided based on the principle of suitability.

(ii) Provision of appropriate explanations for products and services

(A) Whether the advantages for transactions alone are exaggerated and explanations of the occurrence of loss from the transactions, risks, and other disadvantages are insufficient.

(B) False information or indications of assertive decisions are included in the sales pitch.

(C) Whether the content of explanations for products and transactions is objective and are not arbitrary or subjective.

(D) Whether it is explained so that a customer understands the content of products and transactions (basic merchantability, details of risks, category of the products, fluctuation causes, etc.).

In particular, whether a securities, etc. intermediary makes efforts so that a customer does not lose motivation for understanding, such as explaining important matters that affect the customer’s decision first in light of the purport, etc. of provisions related to the order of statements related to pre-contract documents, etc.

- (E) Whether a securities, etc. intermediary provides an explanation that misleads a customer concerning the financial service contract. In particular, whether a securities, etc. intermediary, financial instruments business operator, or registered financial institution provides an explanation that is likely to mislead a customer to believe that principal is guaranteed.
- (F) In cases where the occurrence of rapid changes in market trends or an event that has a major impact on the market had a major impact on the standard price of an investment trust, whether a securities, etc. intermediary strives to provide information to a customer at an appropriate time and in an appropriate manner and carefully supports the customer's decision on the investment.
- (G) In cases of soliciting a customer using materials stating projections of quotations, etc. that are created by a third party (including newspaper articles, analyst reports, etc.), whether only materials for which details, such as the estimation of quotation, etc., are biased are used intentionally.
- (H) Whether products or transactions are solicited in a manner that imposes an unfair burden on a customer or that lacks economic reasonableness or whether explanations of important matters for making decisions on investment are sufficient.

(iii) Explanation of details of an agreement

In cases where a customer requests to present the details of an agreement (agreement date and time, agreed amount, or agreed value, etc.) after conclusion of a financial service contract, whether measures are taken so that said information can be appropriately presented to the customer by delivering documents when a contract is concluded or by presenting the contact information of a financial instruments business operator or registered financial institution.

(iv) Explanation method through the internet

In cases of providing securities, etc. intermediary business operations via the Internet concerning "explanation in a manner and to the extent necessary for the particulars to be understood by the relevant customers" as specified in Article 111(1)(i) of the Cabinet Office Order on Financial Service Intermediaries, it is deemed that said explanation was provided by confirming that the customer understood the details by the method where the customer read explanatory matters displayed on the screen of a computer that the customer operates, understood the details, and clicked a button on the screen, etc.

(v) Considerations for solicitation of elderly customers

Even though elderly customers have sufficient investment experience, their ability to make a decision related to investment may change over a short period in addition to decreases in physical strength. Therefore, in cases of soliciting elderly customers for investment, it is necessary to secure a careful soliciting and selling system based on the principle of suitability and to develop a monitoring system to detect problematic solicitations and sales at an early stage. In addition, it is also necessary to follow up carefully even after products are sold. Based on the above, attention shall be paid to the following points for supervision.

(A) Whether internal rules related to soliciting and selling to elderly customers have been developed and a monitoring system for compliance with the internal rules has been developed. In addition, when developing the system, if there are voluntary regulation rules of a certified Financial Service Intermediary Business Association, whether said voluntary regulation rules are also taken into consideration.

(B) Whether a securities, etc. intermediary carefully consults with elderly customers from their standpoint, supports them in making decisions on investment, and provides them with careful follow-up even after products are sold.

(vi) Considerations related to solicitation for an investment trust

Investment trust is a product for which solicitation and sale are conducted for a wide range of customers, including general customers with insufficient expertise, experience, etc. Therefore, it is important to identify a customer's needs based on his/her stage of life, property status, investment purposes, etc., provides products suitable for their needs, and appropriately solicits the customer based on his/her knowledge, experience, and intention of investment.

The following points should be kept in mind, for example, in relation to the solicitation of an investment trust based on the aforementioned perspectives.

(A) When soliciting an investment trust, whether the following matters are explained in an easy-to-understand manner concerning the costs that a customer (excluding professional investors; the same applies in (B)) will bear, such as sales commissions, etc.

a. Rate of sales commissions of an investment trust for which a solicitation is conducted and the amount of sales commissions based on the purchased amount (if it cannot be fixed at solicitation, the estimated amount).

b. Costs that a customer will bear after purchasing the investment trust that was solicited (trust fees (for an investment trust that is managed by the fund of funds method, the substantial burden rate, including management costs of funds subject to investment), the amount of trust properties to be retained, etc.).

(B) Concerning the dividends of an investment trust, whether it is explained to a customer in an easy-to-understand manner that there are cases where all or part of dividends correspond to a partial refund of the principal.

(vii) Considerations related to the explanation of important matters for the rollover of an investment trust

Solicitation of a short-term rollover of an investment trust has problems in that it does not always result in a customer's stable and effective asset building, such as that a customer's burden on sales commissions will increase and since the number of cancellations will increase in a short period after establishment in terms of management, the investment trust cannot be managed effectively, resulting in decreases in management performance, etc. For this reason, in light of the customer investment intention and market trends, etc., even in cases where it is determined that a rollover of investment trust is reasonable, it is

necessary to carefully explain to the customer the characteristics of the investment trust related to the rollover and advantages and disadvantages, etc. of the rollover so that the customer can determine the necessity of the transaction after fully understanding these points.

Taking into account these points, in cases where a securities, etc. intermediary does not explain the matters necessary for a customer to make a decision on the reasonableness of the rollover, including consistency with the objective of an investment for the rollover of an investment trust or investment corporation (hereinafter collectively referred to as “investment trust, etc.”) based on the customer’s understanding level, when it is found that the internal control system necessary for performing effective inspection has not been established, it shall fall under the situation where “if the financial instruments intermediary service provider solicits a customer for a rollover of investment trust beneficiary certificates, etc., and it has not provided the customer any explanation on important matters regarding such a rollover” as specified in the provisions of Article 118(1)(vi) of the Cabinet Office Order on Financial Service Intermediaries. In addition, as necessary matters for a customer to make a decision on the reasonableness of the rollover, for example, general matters to be explained related to the sale of an investment trust, etc., the estimated profits and losses of an investment trust, etc. to be canceled, the comparison of merchantability and costs, etc. between investment trusts, etc. to be canceled and investment trusts, etc. to be acquired, and other matters, etc. shall be included. However, it should be kept in mind that each case may be different depending on the customer’s knowledge, experience, property status, investment purpose, and nature of the investment trust, etc.

(viii) Considerations related to the explanation of major events during a secondary distribution of bonds

(A) In cases where a securities, etc. intermediary intends to have a customer who is an individual (excluding professional investors) acquire or purchase bonds (meaning securities as defined in Article 118(1)(v) of the Cabinet Office Order on Financial Service Intermediaries; the same applies in (viii)) by the act as defined in Article 11(4)(iii) of the Act on the Provision of Financial Services (excluding treatment of private placements) and it is found that the following events are not explained, it is considered to fall under the situation of “it has not provided an individual customer (excluding a professional investor) with an explanation of any material circumstances affecting the customer’s investment decision which took place during the period for making an application for the acquisition or purchase of such securities” as specified in Article 118(1)(v) of the Cabinet Office Order on Financial Service Intermediaries

a. In cases where the yield on the bond is significantly disadvantageous to a customer in comparison with yields on similar bonds that the same issuing entity as the bonds in question has already issued, that fact.

(B) Concerning (A), a. above, the following points should be kept in mind.

a. “The bond” refers to a bond that falls under corporate bonds, etc. for individual investors (meaning corporate bonds, etc. for individual investors as defined in Article 2(i) of the Japan Securities Dealers

Association “Regulations on Announcement, etc. of Over-The-Counter Quotation for Corporate Bonds, etc. for Individual Investors”; the same applies hereinafter).

- b. “Similar bonds” refers to the corporate bonds, etc. for individual investors for which the redemption date is the closest to the redemption date of the bonds (new bonds) from among those bonds for which the redemption date comes within a period when six months have been added to the redemption date of the bonds (new bonds) (in cases there are multiple bonds, the bond that was issued recently).
- c. “Significantly disadvantageous to a customer” must be determined in consideration of the interest rate level at solicitation (secondary distribution) and other circumstances, for example, based on the following value (α).

$\alpha = X$ (the value equivalent to credit spread of similar bonds) - Y (the value equivalent to credit spread of the bonds (new bonds))

$X =$ (Mean value of reported value on the “Announcement System of Over-the-Counter Quotation of Corporate Bonds, etc. for Individual Investors” related to similar bonds (the value announced as of the day immediately before the day of solicitation) (Note)) - (Mean simple interest rate of the reference statistical value of the sale and purchase of public and corporate bonds of Japanese government bonds, for which the redemption date is the closest to similar bonds, announced by the Japan Securities Dealers Association (the value announced as of the same day as solicitation))

$Y =$ (Yield to subscribers (simple interest) of the bonds (new bonds)) - (Mean simple interest rate of the reference statistical value of the sale and purchase of public and corporate bonds of Japanese government bonds, for which the redemption date is the closest to the bonds (new bonds) (the value announced as of the day following the day when conditions are determined))

(Note) “Reported value on the ‘Announcement System of Over-the-Counter Quotation of Corporate Bonds, etc. for Individual Investors’ related to similar bonds” shall be the simple mean of reported value (at simple interest) of each of the reporting members related to similar bonds that is reported and announced to the Japan Securities Dealers Association based on the “Announcement System of Over-the-Counter Quotation of Corporate Bonds, etc. for Individual Investors.”

- (C) Concerning the explanation as defined in Article 118(1)(v) of the Cabinet Office Order on Financial Service Intermediaries, in cases where it is stipulated that a security company, etc. performs the “act to have a customer acquire” in an entrustment contract, the security company, etc. shall provide the explanation.

- (ix) Considerations related to the solicitation of transactions using the tax exemption system for small

investments

As a system to support stable household asset building, the tax exemption system for small investments for adults (hereinafter referred to as “General NISA”) was introduced in January 2014. Subsequently, the tax exemption system for small investments for minors (hereinafter referred to as “Junior NISA”) was introduced in April 2016 and the tax exemption system for small investments for adults that specialized in reserve investment (hereinafter referred to as “Reserve NISA” and the General NISA, Junior NISA, and Reserve NISA are collectively referred to as the “NISA system” hereinafter) was introduced in January 2018.

The NISA system is a system for tax exemption on the income from financial instruments purchased within the annual upper investment limit throughout the predetermined tax exemption period. It aims to facilitate asset building by said method mainly for persons who have not built assets through investments in financial instruments.

Based on these points, supervision is provided by paying attention to the following points in consideration of “Consideration when Opening an Account under the NISA System, Solicitation, and Sale, etc. (Guidelines)” for solicitation, etc. of transactions using the NISA system (NISA Promotion and Liaison Council) (hereinafter referred to as the “Guidelines” in (ix)) so that the NISA system is appropriately used in accordance with its purport.

(A) Development of explanation system for customers

a. Activities for increasing customer financial literacy

The NISA system is assumed to be used by customers with little investment knowledge and experience, such as persons making an investment for the first time and young people. Whether efforts are made to appropriately provide basic information related to investments, such as explanations of the effects, etc. of medium- to long-term investments and diverse investments, etc., from the perspective that, with the aforementioned customers, not only complying with the principle of suitability under laws and regulations, but also facilitating the expansion of customer’s financial (investment) literacy and instructing them that engaging in asset building will lead to profits for both customers and securities, etc. intermediaries.

b. Explanation of the NISA system

Whether explanations based on the principle of suitability are provided when soliciting and accepting an application for opening tax exemption accounts related to General NISA and Reserve NISA and minor accounts related to Junior NISA (hereinafter collectively referred to as “NISA Accounts”). For example, whether the matters that are determined to be explained by the Guidelines are explained accurately and in an easy-to-understand manner as necessary so that it will not mislead customers.

(B) Provision of financial instruments based on system design and purport, etc.

Whether products provided are mainly financial instruments that contribute to truly stable asset building of customers based on the principle of suitability in consideration of the purport of the NISA

system, which was introduced to support the stable asset building of households and the objectives, etc. of customers who use the NISA system.

In addition, the characteristics of individual products, as well as the overall balance of a customer's portfolio, should be kept in mind when determining whether a financial instrument contributes to the stable asset building of the customer.

(C) Considerations for Junior NISA

Based on the fact that Junior NISA is a system for minors, care should be taken to ensure that Junior NISA accounts are not used as accounts under fictitious names by persons who have parental authority, etc.

From that perspective, for example, when a Junior NISA account is opened, whether the account is appropriately managed, such as by confirming that the assets in the account are the assets of the person who opened the account and that they are used for the account holder.

(x) Considerations related to the sale of investment trusts, etc. in which assets other than specified assets are part of the target of investment

Under the Act on Investment Trusts and Investment Corporations, investment trusts and investment corporations are stipulated to aim to invest mainly specified assets and they are positioned as a special system for means of long-term, stable asset building for citizens. In light of the purport of the investment trust and investment corporation system, it is not appropriate to sell the following products. Therefore, supervision shall be provided by paying attention to whether said products are sold.

(A) Products for which assets other than specified assets (hereinafter referred to as “non-specified assets” in (x)), equity in investment in the fund for which non-specified assets are subject to investment, and other products for which specified assets that have substantially the same nature as non-specified assets (hereinafter referred to as “non-specified assets, etc.” in (x)) are the objective of the investment (provided, however, that, this does not apply to cases where non-specified assets, etc. have a public nature, such as “public facilities, etc.” as specified in the Act on Promotion of Private Finance Initiative).

(B) Products to invest in non-specified assets, etc. that have higher risks, such as price fluctuation, liquidity risks, etc., than the risks of specified assets that are the original objectives of the investment, when investing in assets other than the objective of the investment of the fund.

In addition, when investing in assets other than the objective of the investment of the fund, even a product that invests in non-specified assets, etc. with a low risk of price fluctuation or liquidity, etc., whether the product is sold in the following manner in light of the purport of the investment trust and investment corporation system should especially be kept in mind.

- a. Selling a product with a name that is reminiscent of non-specified assets.
- b. Selling a product by solicitation exaggerating the investment in non-specified assets.
- c. Although investors may take risks to hold non-specified assets, etc., selling a product to a customer

with an insufficient level of understanding without giving full explanation of risks or confirming the customer's level of understanding.

(xi) Consideration related to the appraisal of representatives

From the perspective of building the solicitation and sale system to support customer's medium- to long-term asset building, supervision shall be provided by paying attention to whether the appraisals of representatives are biased in relation to the income of sales commissions, etc. for investment trusts.

(2) Supervisory methods and measures

Concerning problems related to solicitation of customers and explanations to customers by a securities, etc. intermediary that are identified through daily supervisory operations and notifications of problematic conduct, etc., the FSA shall identify the voluntary business improvement status of the securities, etc. intermediary based on the aforementioned viewpoints by requesting reports based on the provisions of Article 35(1) of the Act on the Provision of Financial Services as necessary. In addition, if it is found that there is a major problem from the perspective of securing the sound and appropriate operation of the financial service intermediary business or customer protection, the FSA shall take action, such as issuing a business improvement order based on the provisions of Article 37 of the Act on the Provision of Financial Services. Furthermore, if a serious and malicious act violating laws and regulations, etc. is found, the FSA shall examine the actions necessary, including the issuance of an order to suspend businesses based on the provisions of Article 38(1) of the Act on the Provision of Financial Services.

VII-1-5 Prevention of Unfair Transactions by Customers

(1) Considerations for prevention of unfair transactions by customers

A securities, etc. intermediary is required to fulfill the investor check function by appropriately preventing acts of accepting entrustment, etc. of the sale and purchase transactions of securities with knowledge of manipulative quotations that do not reflect actual market value or acts of accepting entrustment of the sale and purchase of a customer's securities while knowing that they may fall under insider transactions. For this reason, in order to prevent unfair transactions by customers, the following points should be kept in mind. (In particular, concerning internet transactions, the utmost attention must be paid considering their non-face-to-face nature.)

- (i) Whether a securities, etc. intermediary establishes a specific handling method in order to identify a customer's purchase and sales trends, such as products to be purchased and sold, transaction methods and modes, etc., and accurately identifies the customer's motivation for purchase and sale, etc. through monitoring at the appropriate time based on the handling method.
- (ii) Whether the internal control department disseminates and thoroughly controls the handling method to officers and employees and secures the effectiveness of the method by reviewing it as necessary, etc.

- (iii) From the perspective of preventing an act of manipulating quotations or insider transactions, whether a securities, etc. intermediary strives to identify the original entrustor and final investor concerning intermediation of transactions with an investment partnership, etc. or orders from overseas.
- (iv) In cases where a customer is suspected of conducting insider transactions or where it is found that a customer is using an account under a fictitious name, whether the securities, etc. intermediary reports that fact to the securities company, etc.

(2) Supervisory methods and measures

Concerning problems related to the prevention of unfair transactions of a customer that are identified through inspection results, daily supervisory operations, etc., the FSA shall identify the voluntary business improvement status of the securities, etc. intermediary by conducting in-depth interviews and requesting reports based on the provisions of Article 35(1) of the Act on the Provision of Financial Services as necessary. In addition, if it is found that there is a major problem from the perspective of public interest or investor protection, the FSA shall take action, such as issuing a business improvement order based on the provisions of Article 37 of the Act on the Provision of Financial Services. Furthermore, if a serious and malicious act violating laws and regulations, etc. is found, the FSA shall examine the actions necessary, including the issuance of an order to suspend businesses based on the provisions of Article 38(1) of the Act on the Provision of Financial Services.

VII-1-6 Appropriateness of Operations related to a Securities, etc. Intermediary that Handles Electronically Recorded Transferable Rights to Be Indicated on Securities, etc.

A securities, etc. intermediary that handles electronically recorded transferable rights to be indicated on securities, etc. (meaning the electronically recorded transferable rights to be indicated on securities, etc. as defined in Article 87(v)(f) of the Cabinet Office Order on Financial Service Intermediaries) is required to develop an appropriate system from the perspective of investor protection in light of the high degree of freedom of designing electronically recorded transferable rights to be indicated on securities, etc. and their liquidity. The securities, etc. intermediary shall be supervised by paying attention to the following points in addition to the items stated in VII-1-1 through VII-1-5.

VII-1-6-1 Compliance System with Laws and Regulations, etc.

The compliance system with laws and regulations, etc. of the securities, etc. intermediary that handles electronically recorded transferable rights to be indicated on securities, etc. shall be handled from the perspective

of system development in III-2-1 and by a supervising method in principle. In addition, broad-ranging inspection shall be implemented, including the compliance status of self-regulation rules that are established by a self-regulatory organization.

VII-1-6-2 Solicitation and Explanation System

(1) Principle of suitability

Electronically recorded transferable rights to be indicated on securities, etc. are characteristically transferred using an electronic data processing system without using a book-entry transfer institution as specified in the Act on Book-Entry Transfer of Corporate Bonds and Shares and are recorded by an electronic means. This structure can provide liquidity to unlisted securities; however, there are different risks from regular securities in relation to the possession, transfer, settlement, etc. of the rights, etc. For this reason, whether a securities, etc. intermediary handles electronically recorded transferable rights to be indicated on securities, etc. by paying attention to the following matters is inspected from the perspective of suitability.

- (i) Concerning risks related to networks, such as a blockchain that is used for electronically recorded transferable rights to be indicated on securities, etc. that a securities, etc. intermediary handles, whether appropriate review is implemented continuously, such as undergoing inspection by experts as necessary, etc. based on the importance of the risks.
- (ii) Whether standards for starting a transaction are appropriately determined when implementing transactions related to securities, etc. intermediary business operations with a customer concerning electronically recorded transferable rights to be indicated on securities, etc. In addition, whether the standard is established in consideration not only of a customer's investment experience and property status, but also the structure of possession and transfer for electronically recorded transferable rights to be indicated on securities, etc., the customer's level of understanding of the risk attributable thereto, the customer's transaction experience with products using the same structure, etc.

(2) Considerations related to advertisements, etc.

In cases of advertising securities, etc. intermediary business operations related to electronically recorded transferable rights to be indicated on securities, etc., inappropriate indication of the matters specified in Article 87(v) of the Cabinet Office Order on Financial Service Intermediaries is prohibited. As examples of "an indication that is significantly contradictory to the facts" or "an indication that is an indication that is significantly contradictory to the facts," the following indications are considered.

- (i) Concerning transaction volume or price fluctuation of electronically recorded transferable rights to be indicated on securities, etc., although there is a possibility of losses, an indication that misrepresents the facts.

(ii) Although transfer is limited for a predetermined period due to the structure of electronically recorded transferable rights to be indicated on securities, etc., an indication that misrepresents the facts.

(iii) Concerning the financial status and business progress, etc. of an issuer of electronically recorded transferable rights to be indicated on securities, etc., an indication that misleads investors.

(3) Consideration for explanations of electronically recorded transferable rights to be indicated on securities, etc.

Pre-contract documents, etc. related to securities, etc. intermediary business operations for electronically recorded transferable rights to be indicated on securities, etc. are required to state an outline of electronically recorded transferable rights to be indicated on securities, etc. and reminders for customers based on Article 95(1)(ii) of the Cabinet Office Order on Financial Service Intermediaries

For example, concerning an explanation of the outline of electronically recorded transferable rights to be indicated on securities, etc., if it includes technical explanations, it is desired be stated in an easy-to-understand manner for investors by using figures, etc. In addition, concerning possession and transfer methods of the rights (including establishment of agreements related to transfer of the rights, settlement, a method of preparing for requirements for perfection, etc., but not limited thereto) of the structure of electronically recorded transferable rights to be indicated on securities, etc., if there are risks different from regular securities, it should be kept in mind that it is required to appropriately explain the risks.

VII-1-6-3 Measures against Organized Crime

Transactions related to securities, etc. intermediary business operations for electronically recorded transferable rights to be indicated on securities, etc. are characterized by the fact that transactions are generally not conducted face-to-face and the rights can be electronically transferred without involving a book-entry transfer institution. Based on said nature, etc. of the transactions, attention must be especially paid from the perspective of preventing money laundering and provision of terrorist funds. In addition to the points stated in III-2-1-3 above, the scope of electronically recorded transferable rights to be indicated on securities, etc. to be handled shall be inspected as to whether it is carefully determined in consideration of the possibility that the electronically recorded transferable rights to be indicated on securities, etc. may be used for money laundering and terrorist funds, etc. For example, since electronically recorded transferable rights to be indicated on securities, etc. for which transfer record tracking is significantly difficult have a particularly high possibility of being used for money laundering and terrorist funds, care should be taken to ensure that transactions related to securities, etc. intermediary business operations will not be performed.

VII-2 Administrative Procedures (Securities, etc. Intermediary Business Operations)

VII-2-1 Registration

(1) Considerations for determining whether registration is necessary

Whether a registration is necessary or unnecessary needs to be determined in a comprehensive manner, after taking into consideration the positioning of the relevant conduct in a series of conducts relating to financial service intermediary business. Note that it is not appropriate to focus on only part of the series of conducts and immediately determine that a registration is unnecessary.

For example, in cases of engaging in the following acts alone, in light of the aforementioned requirements, it is not considered to be necessary to obtain a registration for financial service intermediary business in principle.

(A) Concerning the necessity of registration for acts listed in a. through d. below, it is necessary to determine it comprehensively in consideration of the position of the act from among a series of acts related to financial service intermediary business. It should be kept in mind that it is not appropriate to determine that a registration is not necessary immediately by only looking at part of the series of acts.

There may be cases where a person who only performs part of administration by accepting entrustment by a financial instruments business operator or registered financial institution does not need a financial service intermediary business registration.

a. Simple distribution, delivery or provision of advertising leaflets, brochures, contract application forms

(Note) In this case, although the trade name and contact information of the financial instruments business operator or registered financial institution are allowed to be conveyed, explaining how to fill in the distributed, delivered or provided documents may be deemed as intermediation.

In addition, it is only allowed to re-post the content of production information, etc. provided by a financial instruments business operator or registered financial institution related to services mainly aiming to provide product information, such as a comparison site, etc. on the website of the deposit, etc. service intermediary; however, for example, it should be kept in mind that cases of establishing a design or algorithm structure to display the content of a product that the deposit, etc. service intermediary recommends, etc., may fall under intermediation.

b. Receipt and collection of contract application forms and attached documents (excluding cases of checking the content of a filled-in contract application form, etc.)

(Note) In this case, checking the content of a filled-in contract application form, beyond the simple receipt and collection of the contract application form or beyond pointing out any wrong description or omission in the contract application form or failure to attach at least one of the necessary documents, may be deemed as intermediation.

c. In an explanatory meeting about financial instruments, etc., general explanation about the structures and how to utilize financial instruments

d. Business operation of simply introducing customers to financial instruments business operators without conducting solicitation activities

(B) The “introduction” in (A)d. above includes the following acts.

a. Leaving or posting advertising media in which the financial instruments business operator introduces itself in the store of the operator.

b. Providing an explanation of the relationship between the business operator and the financial instruments business operator or the business contents of the financial instruments business operator.

c. Only a link to the financial institution’s site shall be established, and negotiations and procedures leading to the conclusion of a financial service contract shall be conducted between the financial institution and the customer, and the business operator shall not be involved in the conclusion of the contract.

(2) “A person that does not have sufficient capability to perform financial service intermediary business operations properly”

When examining whether a person falls under “a person that does not have sufficient capacity to perform financial service intermediary business properly,” which is a reason for refusing registration as specified in Article 15(i)(p) of the Act on the Provision of Financial Services, the following points shall be checked in reference to a registration application form and attachments, etc. In addition, III-3-1-3, (7) will also be referred to.

(A) Whether a person who engages in financial service intermediary business operations (an officer who engages in financial service intermediary business operations, a person responsible, etc. for internal control, etc.) is a person who passed a qualification examination for sale representatives and has the predetermined knowledge or more concerning laws and regulations and rules, etc.

(B) In cases where an applicant is a corporation or an individual that has employees who engage in financial service intermediary business operations, whether an organization system and personnel structure are established so that necessary personnel are assigned for the appropriate performance of operations to be performed and a person responsible for internal control, etc. is appropriately assigned based on the details and size of the operations to be performed.

(C) In cases where the applicant is a corporation or an individual that has employees who engage in financial service intermediary business operations, whether the following systems have been developed based on the details and size of the operations to be performed (concerning a. and b. below, it is allowed to request that a financial instruments business operator or registered financial institution (limited to a person for whom the securities, etc. intermediary accepted an entrustment of securities, etc. intermediary business operations) as listed in Article 11(4)(i)(a) or (b) of the Act on the Provision of Financial Services perform administration, such as creating books, etc., and having a securities, etc. intermediary manage them).

a. Creation and management of books and documents, reports, etc.

- b. Customer management
- c. Information technology management
- d. Complaint and trouble handling
- e. Internal audit

VII-2-2 Registration of Sales Representatives

(1) Scope of sales representatives subject to registration

A person who is required to be registered on a sales representative register as specified in Article 75(1) of the Act on the Provision of Financial Services from among officers and employees engaging in in-store operations (including over-the-counter operations) of a securities, etc. intermediary shall be a person who engages in any of the following operations.

- (i) Explanation of the content of a financial service contract with the aim of solicitation.
- (ii) Solicitation of a financial service contract
- (iii) Provision, etc. of information with the aim of solicitation (excluding matters related to back-office operations and the provision of objective information at the request of a customer).
- (iv) A person who performs acts listed in the items of Article 75(1) of the Act on the Provision of Financial Services.

(2) Matters to be notified

In cases where a person who does not engage in operations as a sales representative temporarily in association with a personnel transfer in a securities, etc. intermediary, care must be taken to ensure that the person does not fall under Article 64-4(iv) of the Financial Instruments and Exchange Act as applied mutatis mutandis.

VIII Supervisory Evaluation Points and Various Administrative Procedures (Loan Intermediary Business Operations)

VIII-1 Suitability of Operations (Loan Intermediary Business Operations)

VIII-1-1 Prohibited Act, etc. of Financial Service Intermediary

In cases of supervising a financial service intermediary who engages in loan intermediary business operations related to Article 12-6 (Prohibited Acts) of the Money Lending Business Act as applied mutatis mutandis to Article 32 of the Act on the Provision of Financial Services (hereinafter referred to as the “Money Lending Business Act as applied mutatis mutandis”) (hereinafter the financial service intermediary is referred to as “loan intermediary agent” in VIII; the same applies hereinafter), for example, the following points should be kept in mind.

(1) Major supervisory view points

- (i) Whether a loan intermediary agent has established internal rules, etc. stipulating prohibited acts as defined in Article 12-6 of the Money Lending Business Act as applied mutatis mutandis, such as prohibiting the making of false statements to a person seeking funds, etc. or the provision of assertive decisions on uncertain matters, and disseminates and gives thorough control on them through internal training, etc. so that officers and employees appropriately handle the prohibited acts based on the internal rules, etc.
- (ii) Whether the internal control department has established a system to inspect whether appropriate operations are performed based on the internal rules, etc.

(2) Precautions

- (i) Whether an act falls under “an act of not providing that person with information on important matters on the details of a contract for a loan (limited to contracts related to loan intermediary business operations (meaning the loan intermediary business operations as specified in Article 11(5) of the Act on the Provision of Financial Services; the same applies hereinafter); the same applies hereinafter)” as defined in Article 12-6(i) of the Money Lending Business Act as applied mutatis mutandis needs to be determined based on individual facts. For example, it should be kept in mind that cases of performing the following acts are highly possible to fall under the provision. The acts of “making statements or providing information” or “not providing information” as specified in Article 12-6(i) through (iii) of the same Act are not always limited to those made orally.
 - (A) Although there is an inquiry from a person seeking funds, etc. on the content of a contract for a loan, a loan intermediary agent does not reply to the content and causes a disadvantage to the person seeking funds, etc.
 - (B) Although a loan intermediary agent recognizes that a person seeking funds, etc. misunderstood or that it is highly possible that they have misunderstood the content of a contract for a loan, the loan intermediary

agent does not provide information of correct content and thereby hinders the person seeking funds, etc. from making a proper decision.

(Note) The “contract for a loan” as used in (i) above refers to the following contracts.

- a. A contract for a loan of funds or a discount on a note between a money lender and a customer (hereinafter referred to as a “contract for a loan of funds, etc.” in VIII).
- b. A guarantee contract related to a. above.
- c. An intermediary contract related to a contract for a loan of funds, etc.
- d. A guarantee contract related to c. above.

(ii) The provisions of Article 12-6(iv) of the Money Lending Business Act as applied mutatis mutandis prohibit inappropriate acts when a loan intermediary agent manages operations. Whether an act falls under “an act of deceiving others or any other wrongful or extremely unjust act” is determined in consideration of the degree of harming the interests of a person seeking funds, etc. and the degree of inappropriateness of the operations comprehensively in accordance with individual facts. For example, in cases where a loan intermediary agent engages in the following acts, it should be kept in mind that it is highly possible that the act falls under the provisions. In addition, “wrongful” act refers to an illegal act and “unjust” act refers to an act that substantially lacks appropriateness or inappropriate acts from an objective perspective and an act that does not reach the extent of being wrongful (illegal).

(A) At intermediation of conclusion of a contract for a loan of funds, etc. or intermediation of a change to the contract, performing the following acts.

- a. Requesting a blank power of attorney and documents equivalent thereto or electronic or magnetic records recording matters to be recorded on said documents.
- b. Requesting a blank negotiable instrument and a blank check.
- c. Requesting a certificate, etc. necessary for an obligor’s social life, such as a seal, deposit passbook or certificate for deposits or savings, ATM card, individual number card, driver’s license, health insurance card, pension certificate, etc.
- d. Requesting security or guarantors in excess of the loan amount without reasonable grounds.
- e. Requesting a credit card as a security.
- f. Recommending a person seeking funds, etc. a false declaration, such as entering false information concerning important matters, including annual income, use of funds, household status, etc. in a loan application form, etc.

(B) Transferring money to a person’s account in a financial institution, etc. without permission and requesting payment of interests related to the money and any other money in addition to repayment of the money. In addition, concerning the “payment of any other money,” irrespective of the name under which the payment is conducted, such as honoraria, discount fees, commissions, inspection fees, etc.

(C) When adjusting a customer’s obligations, inflating the amount of outstanding obligations based on an amount that is different than what is stated in a book and concluding a contract for settlement.

- (D) A loan intermediary agent opens a dummy account or an account under a borrowed name at a financial institution, etc. or accepts the transfer of an account of a financial institution, etc., and requests to transfer into the account for repayment of obligations.
- (E) Intermediating conclusion of a contract for a loan of funds, etc. knowing that it is difficult for a person seeking funds, etc. to understand the content of the contract due to a physical or mental disability, etc.
- (F) In cases where the person seeking funds, etc. is a person with disabilities and the person has a family or a person who supports communication, such as a helper, etc., refusing intermediation of conclusion of a contract for a loan of funds, etc. only on the grounds of the person's disability without striving to make the person seeking funds, etc. understand the content of the contract through the support person.
- (G) Taking advantage of weaknesses of a person seeking funds, etc. who have a shortage of funds and performing the following acts.
 - a. Forcing a person seeking funds, etc. to conclude a contract for a loan of funds, etc. that is unilaterally disadvantageous to the person.
 - b. Forcing to underwrite shares, contributions, or corporate bonds by suggesting disadvantageous treatment in relation to a future loan.
 - c. Forcing to purchase the products or services of a loan intermediary agent or relevant companies, etc. along with intermediation of conclusion of a contract for a loan of funds, etc.
- (H) Intermediating the conclusion of a contract for a loan of funds, etc.(limited to a consumer contract), including provisions for which the details are the same as provisions that fall under the provisions of Article 8 through Article 10 of the Consumer Contract Act (Act No. 61 of 2000) and it is evaluated to be invalid in a final and binding judgment and where the fact found in the final and binding judgment has been published by the Consumer Affairs Agency, the Incorporated Administrative Agency, National Consumer Affairs Center of Japan, or a qualified consumer organization as specified by said Act.

(3) Supervisory methods and measures

Concerning problems related to operations of a loan intermediary agent that are identified through daily supervisory operations and notifications of problematic conduct, etc., the FSA shall identify the voluntary business improvement status of the loan intermediary agent by conducting in-depth interviews and requesting reports based on the provisions of Article 35(1) of the Act on the Provision of Financial Services as necessary. In addition, if it is found that there is a major problem from the perspective of protection of the interests of a person seeking funds, etc., the FSA shall take action, such as issuing a business improvement order based on the provisions of Article 37 of the Act on the Provision of Financial Services. Furthermore, if a serious and malicious act violating laws and regulations, etc. is found, the FSA shall examine the actions necessary, including the issuance of an order to suspend businesses based on the provisions of Article 38(1) of the Act on the Provision of Financial Services.

VIII-1-2 Explanation System for a Contract

When supervising a loan intermediary agent related to the explanation system of a contract for a loan of funds, etc., for example, the following points should be kept in mind. In this case, the role sharing for provision and explanation of information to a customer between a loan intermediary agent and a money lender shall be taken into account appropriately and consideration shall be given so that the explanation, etc. is not handled mechanically or uniformly.

(1) Major supervisory viewpoints

(i) Development of internal rules, etc. based on laws and regulations, etc.

Concerning the explanation system based on the knowledge, experience, and property status of the person seeking funds, etc., whether internal rules, etc. that stipulated specific and objective standards have been established and they are disseminated and thorough control has been given through internal training, etc. so that officers and employees give appropriate explanations related to contracts for a loan of funds, etc. based on the internal rules, etc.

In addition, whether measures have been taken so that subsequent inspections can be implemented, such as specifying a recording method of status when an explanation of a contract for a loan of funds, etc. is given, etc.

(Note) The “explanation of a contract for a loan of funds, etc.” refers to an explanation that is given when soliciting conclusion of a contract for a loan of funds, etc., when implementing procedures for conclusion of a contract for a loan of funds, etc., and when revising the transaction relationship, etc.

(ii) Establishment of a system for taking actions, such as giving an explanation of a contract based on laws and regulations, etc.

Whether an explanation of a contract for a loan of funds, etc. is appropriately given in accordance with the internal rules, etc. For example, the following points should be noted.

(A) When soliciting conclusion of a contract for a loan of funds, etc.

- a. Concerning the solicitation status of persons seeking funds, etc., whether records (including materials that are used as basis for solicitation, such as a list of solicitors, etc.) are developed using an appropriate method that can be inspected ex-post fact and, in particular, the existence of a solicited person's intention not to conclude a contract for a loan of funds, etc. (including an intention not to desire to continue to receive said solicitation) is clearly recorded.

(Note 1) When developing a list of solicitors, care must be taken to avoid falling under the use of credit information outside the objective, as stated in III-2-2, (4).

(Note 2) The “solicitation” is not limited to phone calls or door-to-door visits, but also includes emails or direct mail.

b. In cases where a person seeking funds, etc. indicates his/her intention not to receive a solicitation again when the person was solicited, whether the period and scope of products for which re-solicitation is not desired are confirmed with the person seeking funds, etc. and are appropriately recorded.

In addition, in cases where the period and scope of products for which re-solicitation is not desired cannot be confirmed with a person seeking funds, etc., it is necessary to determine the period for which re-solicitation is not desired for each case based on the properties of a person seeking funds, etc. for whom solicitation was conducted and the characteristics of loan products. It is considered to be estimated generally that re-solicitation is not desired at least for approximately 3 months concerning any solicitations performed by the loan intermediary agent.

(B) When implementing procedures for the conclusion of a contract for a loan of funds, etc.

a. In cases of intending to implement procedures for conclusion of a contract for a loan of funds, etc., whether it is determined to give a full explanation of the content of the contract orally. If it is not fully explained orally, whether supplementary measures are taken, such as establishing an inquiry window via telephone from a customer, etc. (meaning a person who intends to be a customer who is a person seeking funds, etc. or a guarantor; hereinafter the same applies) or posting the content of the explanation on a website, etc.

In cases where a loan intermediary agent intends to implement procedures for a contract for a loan of funds, etc. through means where it is difficult to give an oral explanation, such as via the Internet, etc., whether substitute measures for oral explanations have been taken where it is confirmed that a customer, etc. understood the content by a method, etc. where the customer, etc. reads explanatory matters displayed on the website of a loan intermediary agent and clicks a button on the screen after understanding the content.

b. Whether it is determined to provide necessary information (details and risks, etc. of products or transactions) with the aim of obtaining sufficient understanding from persons seeking funds, etc. in order to form the intention of conclusion of a contract for a loan of funds, etc. and, in particular, the following points should be kept in mind.

- In cases of explaining a guarantee contract (meaning a guarantee contract related to a contract for a loan of funds, etc. between a money lender and a customer; the same applies hereinafter in VIII-1-2) to a person who intends to be a guarantor (meaning a guarantor of a guarantee contract related to a contract for a loan of funds, etc. between a money lender and a customer; hereinafter the same applies in VIII-1-2) in association with the performance of loan intermediary business operations, whether an explanation is given as much as possible so that the details of the guarantee contract are fully understood (for example, giving an explanation (Note) not only of the formal details of a guarantee contract, but also concerning the legal consequences and risks to a guarantor on the assumption of the worst case where the guarantee obligation must be actually executed immediately, in addition to the best case) and whether a system has been established so that a person who intends

to be a guarantor can conclude a contract after fully understanding the details of the guarantee contract and the risks associated with it in advance with sufficient time to spare.

(Note) It is necessary to give an explanation based on the other party's ability to understand in accordance with the details of the individual contract. For example, a full explanation needs to be given on the following points.

* If a principal obligor cannot perform the obligations, a guarantor may have to pay the amount within the scope of the guarantee for the total sum of the amount of the default and delay damages (in cases where the principal obligor has to pay the outstanding obligation in a lump sum due to the part in default based on a special provision, said amount).

In addition, in cases where a third party who is not substantially involved in management, concludes a guarantee contract with a money lender in association with the performance of loan intermediary business operations, the principal obligor's payment status can be checked with books retained by a money lender who is an obligee of the guaranteed obligation, based on the provisions of the Money Lending Business Act, after conclusion of the contract.

* In cases where a third party who is not substantially involved in management, concludes a contract for a revolving guarantee with a money lender in association with the performance of loan intermediary business operations, the money lender who is an obligee of the guaranteed obligation shall provide information on the outstanding balance and payment status of guaranteed obligation regularly or as necessary at the request of the guarantor after concluding the contract.

* If a guarantor cannot perform the guarantee obligation, the guarantor's property may be seized by compulsory execution.

* A severally and jointly liable guarantor is different from a regular guarantor, such as the defense of demand as specified in Article 452 of the Civil Code (Act No. 89 of 1896) or the defense of debtor's financial resources as specified in Article 453 of said Act cannot be affirmed or that the severally and jointly liable guarantor is not subject to the benefits of allocation.

(Note) The term "benefits of allocation" refers to the nature where if there are multiple guarantors, each guarantor only needs to guarantee the part of the amount of obligation that is equally divided between all guarantors (portion of obligation).

- In cases where the top management, etc. of a small and medium-sized enterprise or small enterprise, etc. (hereinafter collectively referred to as "top management, etc.") concludes a guarantee contract with a money lender in association with the performance of loan intermediary business operations, whether it is determined to give a careful and specific explanation to the principal obligor and guarantor concerning the following points in accordance with the "Guidelines for Top Management's

Guarantee” (see II-2-13-3, (2) of Comprehensive Guidelines for Supervision for Money Lenders).

<i> Necessity of a guarantee contract

<ii> A request for performance at the time of performing the guarantee is not performed uniformly for the full amount of the guarantee, but the range of performance is determined in consideration of the guarantor’s asset status at the time of performing the guarantee in principle.

<iii> If the top management’s guarantee is no longer necessary, there is the possibility of revision, such as change, cancellation, etc. of the guarantee contract.

- In cases where a money lender requests physical collateral in association with the performance of loan intermediary business operations, whether it is determined to conclude a contract after a person who provides physical collateral fully understands the details of a physical collateral contract, such as giving explanations as much as possible so that the person who provides physical collateral fully understands the details of the collateral agreement (for example, giving an explanation of the legal consequences and risks of the collateral guarantee, such as cases where physical collateral rights may be exercised, etc., and, in particular, giving an explanation of not only the formal details of a physical collateral contract, but also on the assumption of the worst case where the physical collateral rights may be actually exercised, in addition to the best case).
- In cases of intending to implement procedures for a contract aiming for a so-called “Omatome loan” (integrated loan), whether an explanation is given concerning the application of deemed payment as defined in Article 43(1) of the Money Lending Business Act before complete enforcement and the appropriate consultation window, such as the Money Lenders’ Association or Consumer Affairs Center, etc., is introduced as necessary.

(C) When reviewing transaction relationships.

- a. In cases of changing “any description stated therein with regard to important matters as provided by a Cabinet Office Order” as specified in Article 17(1) through (5) of the Money Lending Business Act as applied mutatis mutandis and other cases of reviewing a contract that is disadvantageous to the obligor, etc.

Whether an explanation is given for part of a contract for a loan of funds, etc. that is changed and an explanation system has been developed with the aim of obtaining the understanding and consent of an obligor, etc. based on the previous transaction relationships, knowledge, experience, and property status of the obligor, etc.

- b. In cases where the request of a customer is declined and a contract for a loan of funds, etc. does not reach a conclusion.

Whether a system to explain the reasons, etc. for a decline has also been established to the extent possible based on the previous transaction relationship and knowledge, experience, and property status of a person seeking funds, etc.

(iii) Measures for securing effectiveness by the internal control department, etc.

Concerning explanations of a contract for a loan of funds, etc., in addition to regular checks of records concerning the status when the explanation was given by the internal control department, interviewing persons in charge, and internal audits, for example, whether the implementation status of explanations of a contract for a loan of funds, etc. is identified and inspected by checking recording tapes and implementing face-to-face meetings with the person seeking funds, etc. In addition, whether the effectiveness of explanations of a contract for a loan of funds, etc. is ensured by reviewing the implementation method, etc. as necessary based on the results of the inspection, etc.

(2) Supervisory methods and measures

Concerning problems related to the solicitation and explanation system, etc. of a loan intermediary agent that are identified through daily supervisory operations and notifications of problematic conduct, etc., the FSA shall identify the voluntary business improvement status of the loan intermediary agent by conducting in-depth interviews and requesting reports based on the provisions of Article 35(1) of the Act on the Provision of Financial Services as necessary. In addition, if it is found that there is a major problem from the perspective of protection of the interests of a person seeking funds, etc., the FSA shall take action, such as issuing a business improvement order based on the provisions of Article 37 of the Act on the Provision of Financial Services. Furthermore, if a serious and malicious act violating laws and regulations, etc. is found, the FSA shall examine the actions necessary, including the issuance of an order to suspend businesses based on the provisions of Article 38(1) of the Act on the Provision of Financial Services.

VIII-1-3 Restrictions on Interest, Guarantee Charges, etc.

A loan intermediary agent must not intermediate or accept conclusion of a contract for interest wherein the amount of interest exceeds the amount defined in the Interest Rate Restriction Act (Act No. 100 of 1954) or request payment thereof.

When supervising a loan intermediary agent related to the restriction of interest, guarantee charges, etc., for example, the following points should be kept in mind.

(1) Major supervisory viewpoints

(i) Development of internal rules, etc. based on laws and regulations, etc.

Whether restrictions, etc. related to interest, guarantee charges, etc. are concretely specified in the internal rules, etc. based on laws and regulations, etc. and voluntary regulation rules, etc. of the designated financial service intermediary service association.

(ii) Building a system to implement restrictions, etc. related to interest, guarantee charges, etc. based on laws

and regulations, etc.

(A) Whether the internal rules, etc. are thoroughly disseminated and controlled through internal training, etc.

so that officers and employees appropriately handle restrictions, etc. on interest, guarantee charges, etc.

(B) When intermediating the conclusion of a contract for a loan of funds, etc., whether a system for checking details of the contract has been developed in consideration of the following points.

a. Whether the conclusion of a contract for a loan of funds, etc. is intermediated by including “payment regarded as interest” as specified in Article 12-8(2) of the Money Lending Business Act as applied *mutatis mutandis* to the interest.

b. Whether “costs for concluding contracts and for the performance of obligations” as specified in Article 12-8(2) of the Money Lending Business Act as applied *mutatis mutandis*, “costs not deemed to be interest” as specified in Article 36 of the Order for Enforcement of the Act on the Provision of Financial Services, and “user fee” as specified in Article 37 of said Order are amounts equivalent to actual costs (if there is an upper limit under laws and regulations, within the range).

c. In cases of intermediating the conclusion of a contract for a loan of funds, etc. subject to the conclusion of a contract for security measures for the performance of obligations with a person who operates the business of securities measures for the performance of obligations, whether the total sum of the amount of that is paid as compensation for the security measures for performance of obligation and interest does not exceed the amount specified in the Interest Rate Restriction Act.

d. Concerning the interest rate when intermediating a contract for a loan of additional funds, etc. to an identical obligor by an identical obligee, whether it is determined based on the fact that the upper interest rate limit of the Interest Rate Restriction Act will change depending on the outstanding balance of the loan to the obligor by the obligee based on Article 5 of said Act.

e. In cases of intending to conclude a guarantee contract with a guarantee business operator, whether the existence of conclusion of a contract for guarantee charges with the other party or a person who intends to be the other party to an intermediation contract related to the contract for a loan of funds, etc. with the guarantee business operator and the amount of guarantee charges are checked by inquiring with the guarantee business operator or other method prior to the conclusion of the guarantee contract.

In addition, whether records related to the check have been created and retained.

f. Whether measures are taken not to intermediate conclusion of a contract for a loan of funds, etc. that is subject to conclusion of a contract for guarantee charges as specified in Article 125 of the Cabinet Office Order on Financial Service Intermediaries with a guarantee business operator.

g. In cases of intermediating the conclusion of a contract for a revolving guarantee with a guarantee business operator, if the contract for the revolving guarantee is a contract specified in Article 126 of the Cabinet Office Order on Financial Service Intermediaries, whether measures are taken not to intermediate conclusion of the contract for a revolving guarantee.

h. In cases where a loan intermediary agent received intermediation fees from an obligor of a contract for

a loan of funds, etc. that was concluded by the intermediation of the loan intermediary agent, if the contract for a loan of funds, etc. is renewed (including the provisions of Article 127 of the Cabinet Office Order on Financial Service Intermediaries), whether measures are taken not to receive additional fees for the renewal or not to request the payment thereof.

(iii) Measures for securing effectiveness by the internal control department, etc.

Concerning the intermediation of conclusion of a contract for interest, guarantee charges, etc., whether the status is identified and inspected through regular inspection or internal audit by the internal control department. In addition, whether the effectiveness of the proper intermediation of conclusion of a contract for interest, guarantee charges, etc. is secured by reviewing the system, etc. based on the results of the inspection, etc.

(2) Supervisory methods and measures

Concerning problems related to an intermediation of the conclusion of a contract for interest, guarantee charges, etc. by a loan intermediary agent that are identified through daily supervisory operations and notifications of problematic conduct, etc., the FSA shall identify the voluntary business improvement status of the loan intermediary agent by conducting in-depth interviews and requesting reports based on the provisions of Article 35(1) of the Act on the Provision of Financial Services as necessary. In addition, if it is found that there is a major problem from the perspective of protection of the interests of a person seeking funds, etc., the FSA shall take action, such as issuing a business improvement order based on the provisions of Article 37 of the Act on the Provision of Financial Services. Furthermore, if a serious and malicious act violating laws and regulations, etc. is found, the FSA shall examine the actions necessary, including the issuance of an order to suspend businesses based on the provisions of Article 38(1) of the Act on the Provision of Financial Services.

It should be kept in mind that in cases where the conclusion of a contract for an interest exceeding the upper interest limit under the Interest Rate Restriction Act is intermediated, received, or requested to be paid even though it is in the range of interest below the upper interest limit as specified in the Act Regulating the Receipt of Contributions, the Receipt of Deposits, and Interest Rates (Act No. 195 of 1954; hereinafter referred to as the “Contribution Act”), it is subject to administrative disposition pursuant to the provisions of Article 12-8(1), (3), and (4) of the Money Lending Business Act as applied *mutatis mutandis*.

VIII-1-4 Restrictions on Brokerage Fees

Concerning fees, remuneration, or other compensation for loan intermediary business operations (collectively referred to as “fees, etc.” in VIII-1-4 hereinafter) to be received, a loan intermediary agent must not conclude a contract for fees, etc. exceeding the amount as specified in Article 4 of the Contribution Act or receive the fees, etc. In this case when receiving fees, etc. for loan intermediary business operations along with fees, etc. for other

operations performed by the loan intermediary agent, whether said regulation of the Contribution Act is being circumvented should be kept in mind.

When supervising a loan intermediary agent related to the restriction of fees, etc., reference shall be made to VIII-1-3.

VIII-1-5 Advertisement Regulations

When supervising a loan intermediary agent related to advertisement regulations, the following points should be kept in mind.

(1) Major supervisory view points

Whether internal rules, etc. that stipulate provisions for the treatment of advertisements, such as the prevention of inappropriate advertisements, etc., and the rules are thoroughly disseminated and controlled through internal training, etc. so that officers and employees in charge handle them appropriately based on the internal rules, etc.

(2) Precautions

(i) The phrase “advertising the conditions of its loans” as specified in Article 15(1) of the Money Lending Business Act as applied mutatis mutandis refers to advertisement by indicating any one of the matters listed in Article 15(1)(ii) of the Money Lending Business Act as applied mutatis mutandis and Article 129(1) of the Cabinet Office Order on Financial Service Intermediaries (limited to the calculation method of brokerage fees) or the limit amount of a loan, or other specific content of the conditions for a loan.

(ii) The “advertisement” as specified in Article 15(2) of the Money Lending Business Act as applied mutatis mutandis needs to be determined depending on individual specific details; however, it refers to notifying the public of a matter for advertisement as necessary or continuously and widely, such as in the following cases.

(A) TV commercials

(B) Radio commercials

(C) Posting in newspapers, magazines, or other publications

(D) Indications on signboards, standing signboards, bills, placards, etc.

(E) Indications on advertising pillars, advertising boards, buildings, or any other structures

(F) Distribution of fliers, catalogs, pamphlets, leaflets, etc.

(G) Indications on the Internet

(iii) The “solicitation made to many persons with the same content” as specified in Article 129(4) of the Cabinet Office Order on Financial Service Intermediaries needs to be determined based on individual and specific details; it refers to sending the same content to specific addressees, such as the following.

(A) Sending direct mails, fliers, catalogs, pamphlets, leaflets, etc.

(B) Sending emails

(iv) Whether an indication falls under “indications or explanations that arouse the willingness of the person seeking funds, etc. to borrow funds, by overemphasizing the ease of borrowing” as specified in Article 16(2)(iii) of the Money Lending Business Act as applied mutatis mutandis needs to be determined based on individual and specific facts. For example, it should be kept in mind that cases where there are the following indications are highly likely to fall under the aforementioned indications or explanations.

(A) Indications as if no examination for a loan will be implemented, but only the loan itself will be implemented.

(B) Indications that even a person who consolidated obligations or a person who received a bankruptcy discharge can easily borrow money.

(C) Indications that a loan can be made regardless of the number of outstanding loans with other companies or the outstanding balance of loan amount.

(v) Materials, etc. for advertisement that are submitted by a loan intermediary agent, which is not a member of a certified financial service intermediary service association, will be inspected in consideration of voluntary regulation rules of a certified financial service intermediary service association pursuant to the provisions of VIII-3-2. If inappropriate advertisement is found, appropriate actions shall be taken promptly from the perspective of protection of the interests of persons seeking funds, etc. while securing the balance with association members.

(3) Supervisory methods

Concerning problems related to advertisement, etc. of a loan intermediary agent that are identified through daily supervisory operations and notifications of problematic conduct, etc., the FSA shall identify the voluntary business improvement status of the loan intermediary agent by conducting in-depth interviews and requesting reports based on the provisions of Article 35(1) of the Act on the Provision of Financial Services as necessary. In addition, if it is found that there is a major problem from the perspective of protection of the interests of a person seeking funds, etc., the FSA shall take action, such as issuing a business improvement order based on the provisions of Article 37 of the Act on the Provision of Financial Services. Furthermore, if a serious and malicious act violating laws and regulations, etc. is found, the FSA shall examine the actions necessary, including the issuance of an order to suspend businesses based on the provisions of Article 38(1) of the Act on the Provision of Financial Services.

VIII-1-6 Obligation to Delivery Documents

When supervising a loan intermediary agent related to obligation to deliver documents, the following points

should be kept in mind.

(1) Major supervisory viewpoints

(i) Whether a loan intermediary agent has established internal rules, etc. stipulating the delivery of documents to a person seeking funds, etc. and the rules are thoroughly disseminated and controlled through internal training, etc. so that officers and employees appropriately handle operations based on the internal rules, etc.

(Note) It should be kept in mind that the “delivery of documents to a person seeking funds, etc.” includes the following deliveries of documents.

- Delivering documents prior to the conclusion of a contract as specified in Article 16-2(1) or (2) of the Money Lending Business Act as applied mutatis mutandis, before the conclusion of an intermediation contract related to a contract for a loan of funds, etc. or establishment of a contract for a loan of funds, etc. to a person who intends to be the other party to said contract. In addition, delivering documents prior to the conclusion of a contract as specified in Article 16-2(3) of the Money Lending Business Act as applied mutatis mutandis, before the conclusion of a guarantee contract to a person who intends to be a guarantor of said guarantee contract.

- When “important matters as provided by Cabinet Office Order” as specified in Article 17(1) through (5) of the Money Lending Business Act as applied mutatis mutandis are changed by reviewing the transaction relationship, if there is another party to and a guarantor of a contract, delivering documents as specified in Article 17 of the Money Lending Business Act as applied mutatis mutandis to the guarantor.

(ii) Whether a system to inspect that documents are appropriately delivered based on the internal rules, etc. has been established in the internal control department.

(iii) Whether the content of documents are stated clearly and in an easy-to-understand manner for a person seeking funds ,etc. or whether a system to review the details of statement as necessary has been established. Concerning matters to be stated in documents as specified in Article 17 of the Money Lending Business Act as applied mutatis mutandis related to individual loans based on the basic contract for a revolving credit loan, if it is not stated in the same terms as a contract form, whether the necessary matters are stated clearly and in an easy-to-understand manner.

(iv) When delivering documents stating loans, payments, and other transaction statuses in the predetermined period, whether prior approval is obtained in writing or by electronic or magnetic means after indicating that the documents will be delivered and the matters stated in individual documents will be simplified. In addition, if the approval of an obligor, etc. is obtained by electronic or magnetic means, whether the fact that approval has been received is notified in writing or by another appropriate method to an obligor, etc. who granted the approval.

In addition, if an obligor, etc. manifested his/her intention to withdraw the approval for delivery in documents, whether appropriate explanations are given concerning the time to start application of delivery

of documents by a method other than documents.

- (v) In cases of providing the matters by electronic or magnetic means in place of delivery in documents or in cases where a manifestation of intention for approval or withdrawal of delivering documents stating that loans, payments, and other transaction statuses in the predetermined period were received, whether it is recorded that approval, etc. of an obligor, etc. has been received.

(2) Precautions

- (i) A pamphlet integrated with an application form is not eliminated from documents prior to the conclusion of a contract as specified in Article 16-2 of the Money Lending Business Act as applied mutatis mutandis; however, it should be kept in mind that the matters to be stated must meet the requirements under laws and regulations (amount of a loan, interest rate of the loan, maximum amount, etc.).
- (ii) If the content of the matters to be stated as specified by laws and regulations prior to the conclusion of a contract are changed after the delivery of documents prior to the conclusion of a contract, it is necessary to deliver documents prior to the conclusion of a contract again to a person who intends to be the other party to the contract.

(3) Supervisory methods

Concerning problems related to delivery of documents by a loan intermediary agent that are identified through daily supervisory operations and notifications of problematic conduct, etc., the FSA shall identify the voluntary business improvement status of the loan intermediary agent by conducting in-depth interviews and requesting reports based on the provisions of Article 35(1) of the Act on the Provision of Financial Services as necessary. In addition, if it is found that there is a major problem from the perspective of protection of the interests of a person seeking funds, etc., the FSA shall take action, such as issuing a business improvement order based on the provisions of Article 37 of the Act on the Provision of Financial Services. Furthermore, if a serious and malicious act violating laws and regulations, etc. is found, the FSA shall examine the actions necessary, including the issuance of an order to suspend businesses based on the provisions of Article 38(1) of the Act on the Provision of Financial Services.

VIII-1-7 Preparation and Storage of Books and Documents

When supervising a loan intermediary agent related to bookkeeping, the following points should be kept in mind.

(1) Major supervisory viewpoints

- (i) Whether internal rules, etc. stipulating the preparation and keeping of books are established and the rules

are thoroughly disseminated and controlled through internal training, etc. so that officers and employees appropriately handle the operations based on the internal rules, etc.

(ii) In cases of receiving repayment from a person other than an obligor of brokerage fees related to loan intermediary business operations (including a guarantor of a guarantee contract subject to the claim for the brokerage fees), whether the relationship between the person who made the repayment and the obligor and details of how the person who made the repayment came to make the repayment are accurately recorded in the record, etc. on the course of negotiations and a system has been established so that a third person other than the person responsible can easily identify the details.

(iii) Whether the internal control department has established a system so that books are accurately prepared and retained, for example, by checking recording tape and conducting face-to-face meetings with a person seeking funds, etc. as necessary, in addition to checking records on the course of negotiations and interviewing persons in charge, etc.

(Note) The “record on the course of negotiations” as specified in Article 139(5)(xiii) of the Cabinet Office Order on Financial Service Intermediaries refers to records of the collection of claims (meaning claims for brokerage fees related to loan intermediary business operations and claims based on a guarantee contract where the claims are guaranteed claims), records of changes of conditions of an intermediation contract related to loan intermediary business operations (including a guarantee contract where the claims for brokerage fees are guaranteed claims; excluding contracts where the conditions are not changed), and records on the course of negotiations related to claims based on an intermediation contract related to loan intermediary business operations (including a guarantee contract where the claims for brokerage fees are guaranteed claims) after conclusion of the contract. The matters to be stated shall be the following.

- (A) The other party to negotiations (distinction of obligor, guarantor, etc.)
- (B) Date and time, site, and means of negotiation (distinction between telephone, visit, email, and mailing documents, etc.)
- (C) Person in charge of negotiation (including a person present, etc.)
- (D) Details of negotiations (including the content of documents, such as letters of demands, etc.)

(2) Supervisory methods and measures

Concerning problems related to the bookkeeping, etc. of a loan intermediary agent that are identified through daily supervisory operations and notifications of problematic conduct, etc., the FSA shall identify the voluntary business improvement status of the loan intermediary agent by conducting in-depth interviews and requesting reports based on the provisions of Article 35(1) of the Act on the Provision of Financial Services as necessary. In addition, if it is found that there is a major problem from the perspective of protection of the interests of a person seeking funds, etc., the FSA shall take action, such as issuing a business improvement order based on the provisions of Article 37 of the Act on the Provision of Financial Services. Furthermore, if a serious and

malicious act violating laws and regulations, etc. is found, the FSA shall examine the actions necessary, including the issuance of an order to suspend businesses based on the provisions of Article 38(1) of the Act on the Provision of Financial Services.

VIII-1-8 Inspection and Copying of Books and Documents

When supervising a loan intermediary agent related to the inspection or copying of books, the following points must be kept in mind.

(1) Major supervisory viewpoints

(i) Concerning actions when an obligor, etc. (meaning an obligor of brokerage fees related to loan intermediary business operations and a guarantor of a guarantee contract for claims of the brokerage fees; hereinafter the same applies in VIII-1-8) or a person who was an obligor, etc. (hereinafter collectively referred to as “requester of inspection, etc. of books”) requests to inspect or copy books, whether internal rules, etc. are stipulated so that it is checked that if a requester of inspection, etc. of books is the requester him/herself or a justifiably appointed agent, etc. and then a request for inspection or copying of books will be handled promptly without imposing an excessive burden.

In addition, it should be kept in mind that cases of imposing an excessive burden without justifiable reasons concerning the method of checking if the requester is the requester him/herself or a justifiably appointed agent, etc. and inspection or copying may fall under refusal of inspection or copying books.

(ii) Whether physical facilities for inspection or copying of books are secured and the inspection or copying method, etc. is available to requesters of inspection, etc. of books. In addition, whether a system has been established so that if the requester of inspection, etc. of books inquiries about the inspection or copying of books, it can be promptly and appropriately handled.

(iii) Concerning a loan intermediary agent who intermediates the conclusion of a contract by means other than face-to-face methods, such as using the Internet, etc., whether consideration is given to the request for copying books or mailing reproductions when it is difficult for a requester of inspection, etc. of books to come to a store, such as when the requester resides at a distant location.

In cases of collecting the actual costs for the copying of books or mailing reproductions, whether the amount is appropriate and adequate. In addition, in cases where a requester of inspection or copying of books requests an explanation of the details of the actual costs, whether a system to explain the details has been established.

(iv) Whether a system has been established to verify that appropriate inspection or copying of books is provided to a requester of inspection, etc. of books based on internal rules, etc. in the internal control department.

(2) Supervisory methods and measures

Concerning problems related to inspection and copying of books of a loan intermediary agent that are identified through daily supervisory operations and notifications of problematic conduct, etc., the FSA shall identify the voluntary business improvement status of the loan intermediary agent by conducting in-depth interviews and requesting reports based on the provisions of Article 35(1) of the Act on the Provision of Financial Services as necessary. In addition, if it is found that there is a major problem from the perspective of protection of the interests of a person seeking funds, etc., the FSA shall take action, such as issuing a business improvement order based on the provisions of Article 37 of the Act on the Provision of Financial Services. Furthermore, if a serious and malicious act violating laws and regulations, etc. is found, the FSA shall examine the actions necessary, including the issuance of an order to suspend businesses based on the provisions of Article 38(1) of the Act on the Provision of Financial Services.

VIII-1-9 Restriction on Acts of Collection

When supervising a loan intermediary agent related to an act of collection, the following points should be kept in mind.

(1) Major supervisory viewpoints

- (i) Concerning collection and demands against an obligor, etc. (meaning an obligor of brokerage fees related to loan intermediary business operations and a guarantor of a guarantee contract for claims of the brokerage fees; hereinafter the same applies in VIII-1-9), whether internal rules, etc. stipulating objective standards and procedures, etc. have been established and they are thoroughly disseminated and controlled through internal training, etc. so that officers and employees appropriately handle them based on the internal rules, etc.
- (ii) Whether the internal control department has established a system so that the actual status of collection and demands can be identified and inspected, for example, by checking the recording tape and conducting a face-to-face meeting with the person seeking funds, etc. as necessary, in addition to checking records, etc. on the course of negotiations and interviewing the persons in charge, etc.

(2) Precautions

- (i) Provisions of the items of Article 21(1) of the Money Lending Business Act as applied mutatis mutandis are examples of an “act which in any way may harm the tranquility of a person’s personal life or business operations” and it is necessary to determine whether individual acts of collection fall under the same paragraph based on individual facts. In addition to the examples specified in said provisions, for example, the following examples may be highly likely to fall under an “act which in any way may harm the tranquility

of a person's personal life or business operations.”

(A) Telephoning, sending a telegram, or transmitting a message via email or a facsimile machine, etc., or visiting the place of the residence of the obligor, guarantor, etc. repetitively and continuously.

(B) Forcing or suggesting payment of claims by insurance proceeds.

(ii) The “justifiable grounds” as specified in Article 21(1)(i), (iii), and (ix) of the Money Lending Business Act as applied mutatis mutandis should be determined based on individual facts. For example, the following may be highly likely to fall under “justifiable grounds.”

(A) Article 21(1)(i) of the Money Lending Business Act as applied mutatis mutandis.

a. In cases where there is the spontaneous approval of an obligor, etc.

b. In cases where there are no other reasonable methods to contact an obligor, etc.

(B) Article 21(1)(iii) of the Money Lending Business Act as applied mutatis mutandis.

a. In cases where there is spontaneous approval of an obligor, etc.

b. In cases where there are no other reasonable methods to contact an obligor, etc.

c. In cases where the contact information of an obligor, etc. is not known, when contacting a person other than the obligor, etc. via telephone in order to confirm the contact information of the obligor, etc. Even in this case, making contact via telephone although the person other than the obligor, etc. demanded not to contact via telephone may be highly likely to fall under an “act which in any way may harm the tranquility of a person's personal life or business operations.”

(C) Article 21(1)(ix) of the Money Lending Business Act as applied mutatis mutandis.

a. In cases where there is approval of an attorney-at-law or legal professional corporation or a judicial scrivener or judicial scrivener corporation (hereinafter collectively referred to as an “attorney-at-law, etc.”).

b. In cases where there is a notification from an attorney-at-law, etc. or obligor, etc. that delegation to an attorney-at-law, etc. is terminated.

(iii) The “justifiable grounds such as that the relevant request is not found to be reasonable in terms of general social norms” as specified in Article 21(1)(ii) of the Money Lending Business Act as applied mutatis mutandis should be determined based on individual facts. For example, the following may be highly likely to fall under the “justifiable grounds.”

(A) In cases where there is no request for a specific date for payment or contact from an obligor, etc.

(B) In cases where a request for payment and contact by an obligor, etc. has not been performed recently.

(C) In cases where there is a request that significantly deviates from the regular repayment agreement.

(D) In cases where an obligor, etc. repaid another company against the details of the request during the grace period for payment related to the request.

(E) In cases where an obligor, etc. falls under a suspension of payment, or goes missing, etc. during the grace period for payment related to the request and it is ensured that it is difficult to receive payment from the obligor, etc.

(iv) Article 21(1)(v) of the Money Lending Business Act as applied mutatis mutandis intends to prohibit forcing repayment by placing psychological pressure on an obligor, etc. It should be kept in mind that, except when an obligor, etc. requests to hide the fact from his/her family, even if a phone call is made to the home of the obligor, etc., his/her family member receives it, and the loan intermediary agent introduces itself, or even if mail is sent and the sender indicates itself as the loan intermediary agent, it does not immediately fall under the prohibited act under the same item.

(v) Concerning “any other similar means” as specified in Article 21(1)(vi) of the Money Lending Business Act as applied mutatis mutandis, requesting payment by using a credit card, etc. falls under this method.

(vi) The cases of delegating to “a judicial scrivener or judicial scrivener corporation” as specified in Article 21(1)(ix) of the Money Lending Business Act as applied mutatis mutandis refers to cases of delegating authority for operations (the summary court legal representation business) as specified in Article 3(1)(vi) and (vii) of the Judicial Scrivener Act (Act No. 197 of 1950) to a judicial scrivener as specified in Article 3(2) of said Act.

(vii) Documents for demanding payment as specified in Article 21(2) of the Money Lending Business Act as applied mutatis mutandis or electronic or magnetic records in lieu thereof shall be as stated below.

(A) Concerning the “address “and “telephone number” as specified in Article 21(2)(i) of the Money Lending Business Act as applied mutatis mutandis, those related to the department or business office, etc. controlling the claims shall be stated respectively.

(B) Concerning the “the name of the person who sends the relevant documents or electronic or magnetic records” as specified in Article 21(2)(ii) of the Money Lending Business Act as applied mutatis mutandis, the name of the person who manages said claims at the department or business office, etc. controlling said claims shall be stated.

(3) Supervisory methods and measures

Concerning problems related to acts of collection of a financial service intermediary that are identified through daily supervisory operations and notifications of problematic conduct, etc., the FSA shall identify the voluntary business improvement status of the loan intermediary agent by conducting in-depth interviews and requesting reports based on the provisions of Article 35(1) of the Act on the Provision of Financial Services as necessary. In addition, if it is found that there is a major problem from the perspective of protection of the interests of a person seeking funds, etc., the FSA shall take action, such as issuing a business improvement order based on the provisions of Article 37 of the Act on the Provision of Financial Services. Furthermore, if a serious and malicious act violating laws and regulations, etc. is found, the FSA shall examine the actions necessary, including the issuance of an order to suspend businesses based on the provisions of Article 38(1) of the Act on the Provision of Financial Services.

VIII-2 Ensuring Transparency of Operations

Changes to operation methods of a loan intermediary agent and the occurrence, etc. of accidents, etc. may have a major impact on the person seeking funds, etc. A loan intermediary agent needs to promptly transmit accurate and fair information from the viewpoint of a person seeking funds, etc. to the person seeking funds, etc. If a loan intermediary agent ensures the transparency of operations and fulfills the duty of accountability, it will increase the reliability of the loan intermediary agent.

When supervising a loan intermediary agent from the aforementioned perspective, the following points should be kept in mind.

(1) Major supervisory viewpoints

- (i) In cases where the operation method is changed (decision to close a business office, etc.) or an accident, etc. occurs, whether a loan intermediary agent has established internal rules, etc. stipulating the methods, etc. of information disclosure when it is determined to affect the protection of the interests of a person seeking funds, etc. and the rules are thoroughly disseminated and controlled through internal training, etc. so that officers and employees appropriately handle operations based on the internal rules, etc.
- (ii) Whether information that affects the protection of the interests of a person seeking funds, etc. is promptly and appropriately published. In addition, whether a system to appropriately handle information to be published has been established, such as information necessary for a person seeking funds, etc. is indicated in an easy-to-understand manner and sufficient explanations are provided in response to inquiries from a person seeking funds, etc.

(2) Supervisory methods and measures

Information disclosure shall be implemented by a loan intermediary agent in accordance with the principle of self-responsibility and based on business judgment, in addition to what is provided for by laws and regulations, etc. Even in cases where actions from the aforementioned viewpoint are not taken, supervisory measures will not be taken immediately.

However, from the perspective of protection of the interests of a person seeking funds, etc., if information that may cause a disadvantage to a person seeking funds, etc. is not disclosed intentionally, it shall be inspected from the perspective of the suitability of operations.

VIII-3 Administrative Procedures (Loan Intermediary Business Operations)

VIII-3-1 Acceptance of Application for Registration, Notification, etc.

VIII-3-1-1 Necessity of Registration

(1) Criteria for necessity of registration

The necessity of registration needs to be determined comprehensively in consideration of the position of an act among a series of acts towards the establishment of a contract for a loan of funds or discounting bills and notes. It should be kept in mind that it is not appropriate to determine that the registration is not necessary immediately by looking only at part of a series of acts.

(2) When registration is necessary.

For example, a person who engages in any one of the acts listed in (i) through (iii) below as its business should keep in mind that it is necessary to obtain registration of a financial service intermediary business as specified in Article 12 of the Act on the Provision of Financial Services in principle.

- (i) Soliciting the conclusion of a contract for a loan of funds or discounting bills and notes.
- (ii) Explaining products with the purpose of soliciting the conclusion of a contract for a loan of funds or discounting bills and notes.
- (iii) Negotiating conditions for the conclusion of a contract for a loan of funds or discounting bills and notes.

(3) When registration is not necessary.

In cases of performing an act that does not form an intermediary based on the entrustment by a money lender, registration as a financial service intermediary business is not required.

For example, it is considered that there may be a case where the registration of financial service intermediary business is not necessary for a person who only accepts entrustment by a money lender and performs only part of the administration of acts listed in (A) through (D) below.

- (A) Only distribution, delivery, or provision of fliers and pamphlets of product information, contract application forms, etc.

(Note) In this case, it is allowed to communicate the name or contact information of the money lender, or other information; however, it should be kept in mind that cases of giving an explanation of how to enter information, etc. for materials to be distributed, delivered, or provided may fall under intermediation.

In addition, it is only allowed to re-post the content of production information, etc. provided by a money lender related to services mainly aiming to provide product information, such as a comparison site, etc., on the website; however, for example, it should be kept in mind that establishing a design or algorithm structure to indicate the content of a product that the person recommends, etc. may fall under intermediation.

(B) Receipt and collection of contract application forms and attachments thereto

(Note) In this case, it should be kept in mind that checking, etc. the details of descriptions in the contract application form by going beyond only receiving and collecting contract application forms or pointing out misdescriptions, omissions of descriptions, or omissions of attaching required data may fall under intermediation.

(C) Explaining the general structure, use method, etc. of for a housing loan product, etc. at a briefing on housing loans, etc.

(D) Operations only to introduce customers to a money lender without solicitation.

(Note) The expression “introduce” above includes the following acts.

- a. Placing or posting advertising media in which a money lender introduces itself, at the office of the loan intermediary agent.
- b. Giving an explanation of the relationship between the loan intermediary agent and a money lender or details of the operations of the money lender.
- c. Only a link to the website of a money lender is established, and negotiations and procedures leading to the conclusion of a contract for a loan of funds, etc. are conducted between the money lender and customer and the loan intermediary agent is not involved in the conclusion of the contract.

VIII-3-1-2 Administration for Applications for Registration

Administration for applications and changes to the registration of a financial service intermediary business and inspection of the registry shall be handled as stated below.

(1) Acceptance of application for registration and notification

When accepting the registration application form and notification of change, the following matters should be kept in mind. If it is inappropriate, correction shall be requested.

(A) No trade name or name that is likely to mislead a person seeking funds, etc. into thinking the applicant is a public institution or financial institution and that harm fair transactions are used.

(B) Two or more registrations are not applied by using two or more trade names or names.

(2) Examination of applications for registration

(i) Obtaining the registration of a financial service intermediary business by deceiving the administrative authorities for registration, such as stating a questionable site for sound and appropriate operation management as a business office, etc., registering a financial service intermediary business by pretending to be another person or by borrowing another person’s name, etc. falls under a registration by false statement or unlawful means. In particular, at an application for a new registration, efforts shall be made to eliminate

inappropriate applications for registration, such as inviting a registration applicant (including officers of a corporation) or major employee to the local finance bureau for interview or conducting on-site inspections of a business office, etc.

(ii) When examining whether a loan intermediary agent falls under “a person that does not have sufficient capacity to perform financial service intermediary business properly” as specified in Article 15(i)(p) of the Act on the Provision of Financial Services, in particular, the following points should be kept in mind by inspecting the loan intermediary agent through interviews and field investigation based on the registration application form and attachments. In addition, reference shall be made also to III-3-1-3, (7).

(A) Whether the internal rules, etc. of the applicant are at the same level as the voluntary regulation rules of a certified financial service intermediary service association.

(B) Concerning the internal rules, etc. and major considerations listed in III-1, III-2, and VIII-1, whether a system for appropriate actions has been established from the perspective of the size and characteristics, etc. of the loan intermediary agent.

In particular, when checking an organization system, whether a system has been developed for the internal control department (an internal control system, depending on the operations) where the function of mutual supervision is effectively working, including a system for compliance with laws and regulations.

(C) Whether necessary and sufficient facilities for the sound and appropriate operation management of financial service intermediary business have been prepared based on the size and characteristics of the loan intermediary agent, such as securing appropriate facilities for retaining personal information at a business office, etc. and a site, etc. for handling complaints of a person seeking funds, etc. and a site for the inspection of books, etc. are secured.

(D) If an applicant is a corporation (including an association or foundation without legal personality), whether performing financial service intermediary business (limited to business related to loan intermediary business operations) is included as the objective of the corporation in the articles of association of the corporation or an act of endowment.

(E) Whether there are persons with experience engaging in loan operations for three years or longer or persons who are found to have the same or better abilities thereto from among the officers engaging in daily business (if an applicant is an individual, whether the applicant is a person with experience engaging in loan operations for three years or longer or a person who is found to have the same or better abilities thereto). In addition, whether there is one or more persons who have engaged in loan operations for one year or longer or who are found to have the same or better abilities thereto as a full-time officer or employee for each business office, etc. that engages in loan intermediary business operations.

(Note 1) Whether the person who “engages in daily business” shall be determined based on whether the reality of the situation can be found so that the details and manner of regular execution of business of a loan intermediary agent can be identified in principle. It is not always required to be “full-

time”; however, for example, if a person works only on the days of a board of directors’ meeting, it cannot be said that the person engages in daily business.

(Note 2) Concerning “full-time,” it is not required to be regularly stationed at its business office, etc. during the business hours of a loan intermediary agent; however, in light of the actual business status of the loan intermediary agent and social convention, a reasonable actual status of working is required.

(Note 3) When examining whether a person from among officers engaging in daily business is a person with experience engaging in loan operations for three years or longer or a person who is found to have the same or better abilities thereto, it shall be inspected by receiving the submission of materials, etc. that can objectively define that the person has experience engaging in the operations for three years or longer or has equivalent or better ability thereto.

(iii) If an applicant engages in a business that runs pachinko parlors or other facilities and allows customers to play games that are likely to stimulate the customers’ desire for gains by chance, as a concurrent business, whether the following appropriate measures have been taken.

(A) A financial service intermediary business store is not installed on the same premises as the business office where concurrent business is performed.

(B) Solicitation or advertisement for loans is not implemented for users of a business office where concurrent business is performed.

(iv) Concerning a person who is not scheduled to join a certified financial service intermediary service association when an application for registration is filed, the following matters shall be notified and disseminated and appropriate actions shall be required.

(A) It is necessary to develop internal rules, etc. in consideration of the association rules.

(B) If the association rules are revised, etc., it is necessary to review internal rules immediately based on the revision.

VIII-3-2 Collection of Copies of Advertisements from Non-Association Members

A copy of advertisements, etc. placed in the preceding quarterly period (meaning “advertisement” as specified in VIII-1-5, (2), (ii) and “solicitation” as specified in (iii)) or items that can identify the details of the advertisements, etc. shall be collected from non-association members quarterly each year based on the provisions of Article 35(1) of the Act on the Provision of Financial Services.

Basic Procedures for On-Site Inspection

The Basic Procedures mentioned here are those for on-site inspections conducted on the basis of law in the process of monitoring (hereinafter referred to as “on-site inspections”) by the local finance bureaus (including the Fukuoka Local Finance Branch Bureau and the Okinawa General Bureau; the same applies hereinafter), as commissioned by the Financial Services Agency (FSA) and the Commissioner of the FSA.

An on-site inspection is a means of monitoring. However, it is possible only with the understanding and cooperation of financial institutions subject to inspections (deposit-taking financial institutions, insurance companies and others; hereinafter referred to as “subject financial institutions”) because a great deal of burden, etc. can be imposed on them as a result.

It is thus important that both inspectors and subject financial institutions understand the procedures of conducting an on-site inspection so as to carry it out smoothly and effectively in accordance with the appropriate process.

Therefore, it is necessary to explain the Basic Procedures to a subject financial institution. To conduct a non-standard procedure, consideration, such as giving an explanation to a subject financial institution in a timely manner, is needed.

Given the above, an on-site inspection shall be conducted based on the following procedures in principle.

1. Before Commencement of On-Site Inspection

(1) Advance Notice

In consideration of the efficiency of the on-site inspection, an advance notice shall be given to the subject financial institution, in principle.

However, when it is found necessary from the perspective of surely ascertaining the actual status of the subject financial institution in an effective manner, the on-site inspection may be conducted without an advance notice.

(2) After Advance Notice, Before Commencement of On-Site Inspection

An advance notice shall be given to the subject financial institution by such means as issuing an inspection notice.

Then, after making adjustments with the subject financial institution, a notice on the scheduled commencement date on which preparations by both the inspection team and the subject financial institution will be completed is to be separately given to the subject financial institution. Additionally, the subject financial institution is informed of the names of the inspectors in charge before the commencement of the on-site inspection (if there is any change in inspectors during the inspection, the name of a

new inspector shall be shared on each occasion).

In a case where the inspection is found to have become difficult due to a natural disaster or other uncontrollable circumstances and is decided to be postponed or suspended, the inspection team shall inform the subject financial institution of that decision promptly.

(3) Points to Consider when Requesting Data, etc. in Advance

After giving an advance notice and before commencing the on-site inspection, the chief inspector shall explain the details of the data, etc. to be submitted in advance and request the subject financial institution to submit such data, etc. by setting the submission deadline. When requesting the submission of data, etc. in advance, the following points should be considered. In principle, the inspection team should fully utilize the data, etc. that have already been obtained through ordinary monitoring and limit the data that it newly requests to the minimum necessary.

- (i) The existing data, etc. of the subject financial institution should be fully utilized, in principle.
- (ii) The chief inspector designates the data, etc. to be newly submitted orally or in writing in advance, but any data, etc. submitted by the subject financial institution based thereon should be accepted as long as they satisfy the required details.
- (iii) The submission of data, etc. in electronic form and keeping of data, etc. at the inspection venue shall be permitted as long as there is no hindrance to the inspection.
- (iv) When setting the submission deadline, due consideration should be given to the capacity of the subject financial institution and clerical burden thereon.

(4) Prior Explanation of Important Matters, etc. to Subject Financial Institution

The chief inspector shall conduct the following before commencing the on-site inspection (in a case of an on-site inspection without an advance notice, promptly after commencing the inspection). On that occasion, explanations may be provided within the subject financial institution's facility by obtaining consent therefrom, as necessary.

- (i) Provide explanations on the important matters specified in Attachment 1-2 to the subject financial institution and obtain consent from an officer having the authority of representation by the first day of the on-site inspection (in a case of an on-site inspection without an advance notice, promptly after commencing the inspection).
- (ii) From the perspective of conducting the on-site inspection smoothly, discuss necessary matters concerning general affairs with the subject financial institution.
- (iii) Receive explanations on matters in the field, etc. covered by the inspection from the subject financial institution, as necessary.

2. During On-Site Inspection

(1) Presentation of Inspection Order, etc.

When commencing an on-site inspection without giving an advance notice, the chief inspector must present a written inspection order and his/her identification card, which the staff of the FSA, etc. should carry upon an on-site inspection, to an officer or other responsible personnel of the subject financial institution and announce that an on-site inspection is to be commenced. On that occasion, the chief inspector shall tell the officer or other responsible personnel the names of the inspectors (if there is any change in inspectors during the inspection, the name of a new inspector shall be shared on each occasion).

Irrespective of giving an advance notice or not, if requested by any related party during the on-site inspection, the chief inspector shall present his/her identification card, which the staff of the FSA, etc. should carry upon an on-site inspection.

(2) Exchange of Opinions with External Auditor (Financial Auditor)

Opinion exchange with an external auditor (financial auditor) shall be conducted based on the judgment of the chief inspector or in response to a request from an external auditor by obtaining agreement from the subject financial institution and the external auditor in consideration of the following.

- (i) Prior to the opinion exchange, confirm that the external auditor and the subject financial institution has lifted the duty of confidentiality at the site of the opinion exchange.
- (ii) During the opinion exchange, confirm the status of external audits for the subject financial institution and the external auditor's awareness regarding the subject financial institution's business status, share the problems that the inspection team has identified, grounds for considering them as problems and the like, and directly confirm the external auditor's views on those points, or otherwise endeavor to make the opinion exchange fruitful.

(3) Points to Consider when Requesting Data, etc.

Inspectors may request the subject financial institution to submit data, etc. as needed by obtaining approval from the chief inspector from the perspective of accurately ascertaining the actual status of the subject financial institution's business operations and verifying the appropriateness of their findings.

When requesting the submission of data, etc., the following should be noted in consideration of the burden on the subject financial institution and from the perspective of conducting the on-site inspection efficiently and effectively.

- (i) Fully consider the necessity and duplication of data, etc. and limit the data, etc. to be newly submitted to the minimum necessary.
- (ii) Utilize the existing data, etc. of the subject financial institution, in principle, and if requesting other new data, accept submitted data in any form as long as they satisfy the required details.
- (iii) Permit the submission of data, etc. in electronic form and keeping of data, etc. at

the inspection venue as long as no hindrance is caused to the inspection.

- (iv) When setting the submission deadline, give due consideration to the capacity of the subject financial institution and clerical burden thereon.

(4) Verification

When verifying the findings during the on-site inspection, inspectors should take into consideration the following points.

- (i) With the importance of dialogues with the subject financial institution in mind, sincerely listen to explanations and opinions of the counterparty, and when presenting the view, provide explanations with grounds therefor based on the Comprehensive Guidelines for Supervision and the theme-specific “supervisory approaches and principles.”
- (ii) Point out problems to and share challenges with the subject financial institution, and when confirming the subject financial institution’s awareness regarding those problems and challenges, use a document in principle with the aim of clarifying the financial institution’s awareness.
- (iii) With regard to matters relating to the subject financial institution’s business model or its business decisions, endeavor to ascertain the actual status in a cautious manner through talks with a broad range of officers, including outside directors, or other means, and when pointing out the relevant matters or sharing challenges, take note that an extremely careful determination is required.

(5) On-the-Spot Investigation

In order to effectively ascertain the actual status of the subject financial institution and verify the appropriateness of the findings, inspectors shall directly visit the facilities where officers and employees of the subject financial institution are performing their duties, places where data are preserved, etc. as necessary and shall conduct an investigation of actual business operations while extracting and inspecting the originals of data, etc. as appropriate (hereinafter referred to as an “on-the-spot investigation”).

In consideration of the fact that an on-site inspection is conducted with cooperation from the subject financial institution, when inspecting its articles or receiving the submission of its articles for an on-the-spot investigation, inspectors shall obtain consent from the subject financial institution and follow the following procedures.

- (i) For an on-the-spot investigation, whether to give an advance notice or not should be determined in light of the necessity of the on-site inspection, workload, results of the previous inspection and the like from the perspective of conducting the inspection effectively. When giving an advance notice, the inspection team shall inform the subject financial institution of the places to be investigated and the investigation schedule, etc. in advance.
- (ii) Upon conducting the on-the-spot investigation, the chief inspector shall thoroughly

disseminate the following points among inspectors.

- a. Give due consideration to ensure that the on-the-spot investigation will not cause hindrance to business operations of the subject financial institution as much as possible.
 - b. Do not request the inspection of articles other than those relating to the subject financial institution's business operations, such as personal property of its officers and employees pertaining to their privacy. When it is difficult to judge whether an article relates to business operations or not, an inspector shall obtain consent of the counterparty and check the article to the extent necessary for making a judgment and shall make a final judgment.
 - c. The on-the-spot investigation shall be conducted by multiple inspectors in the presence of at least one responsible person of the subject financial institution.
- (iii) When conducting the on-the-spot investigation, the inspection team shall extract the articles necessary for the on-site inspection, such as the originals of data, etc., from among all articles relating to the subject financial institution's business operations at the facilities, etc. subject to the investigation, and shall request the inspection thereof.
- (iv) When bringing out the articles, such as the originals of data, etc., for which the inspection team requested the inspection as mentioned in (iii) above, the inspection team shall manage those articles appropriately by the use of a management register or other means.

(6) Procedures for Completing On-Site Inspection (Exit Meeting)

The chief inspector, etc. (meaning the chief inspector and the division in charge of the inspection; the same applies hereinafter) shall compile the ascertained problems and challenges at an appropriate time during the on-site inspection and make a report to top officials of the relevant departments, etc. to share recognitions among the FSA.

Then, the chief inspector, etc. shall undertake the following procedures with officers of the subject financial institution for completing the on-site inspection.

- (i) Confirm the details of the dialogues with the subject financial institution, including the details of the document created in accordance with (4) above.
- (ii) In particular, regarding the facts ascertained in the process of the on-site inspection, fully confirm that there is no difference in recognitions between the chief inspector, etc. and the subject financial institution.
- (iii) The chief inspector, etc. shall state the problems and challenges that were ascertained through the on-site inspection, hear the subject financial institution's opinions thereon, and confirm the commonalities and differences in recognitions of the chief inspector, etc. and the subject financial institution at that point in time. For making the confirmation, efforts should be made to clarify the results by such means as using the document created in (4)(ii) above, in principle.

- (iv) Inform the subject financial institution that the final view is to be presented in the inspection results notice, etc. in principle and that there is a possibility of conducting another on-site inspection if necessary until the issuance of the notice.

(Note) The on-site inspection shall be commenced on the date of inspection (in a case of an on-site inspection with an advance notice, the date stated in the notice, and in a case of an on-site inspection without an advance notice, the date of commencing the entry into the site) and shall be completed with the issuance of the inspection results notice. When an inspection results notice is not issued, the chief inspector, etc. shall separately inform the subject financial institution of the method of presenting the inspection results and the time of completing the on-site inspection.

(7) Suspension of On-Site Inspection

The on-site inspection may be suspended in the following cases.

- (i) In a case where suspension is found to be appropriate from the perspective of conducting the on-site inspection effectively, such as where a long period of time is required for the work to be conducted by the subject financial institution, or where there is a need for the inspection team to go back and conduct verification or analysis at its office.
- (ii) In a case where it is found difficult to continue the on-site inspection due to a natural disaster, a large-scale system failure, or other serious circumstances.

(8) Other Points to Consider

- (i) The chief inspector shall exchange information and opinions with the subject financial institution regarding the following points regularly during the inspection.
 - a. Progress of the on-site inspection
 - b. Responses to the inspection by the subject financial institution
 - c. Requests regarding the inspection

At the request of the subject financial institution, the chief inspector may present the estimated time of completing the inspection at the stage when it becomes possible to make an estimation.

- (ii) When on-site inspections are conducted for multiple financial institutions belonging to the same financial group simultaneously or for multiple financial institutions on the same theme in a cross-sectoral manner, individual inspection teams shall mutually offer cooperation as necessary to achieve efficient and effective on-site inspections.
- (iii) The presence of a third party to observe the on-site inspection as requested by the subject financial institution shall not be permitted except for the case where the chief inspector finds a special circumstance.
- (iv) When there is a need, inspectors shall ask questions or request the submission of data, etc. from an officer or employee of the subject financial institution during its

business hours, in principle. However, this does not apply to the case where the chief inspector finds it necessary to do so outside of the subject financial institution's business hours and consent was obtained from the counterparty.

3. After Completion of On-Site Inspection

(1) Issuance of Inspection Results Notice, etc.

The chief inspector shall prepare a report on the inspection results compiling the matters, problems and challenges ascertained through the on-site inspection.

The director-general of the bureau in charge of the inspection (regarding Local Finance Bureaus, the Director-General of the relevant Local Finance Bureau, the Director General of the Fukuoka Local Finance Branch Bureau, or the Director-General of the Okinawa General Bureau) shall examine the report and the details of the inspection, prepare an inspection results notice in accordance with the seriousness of the matters, problems and challenges ascertained through the on-site inspection (when there are the results of examinations on any filed opinions, also by fully taking into account those results), and issue the notice to the subject financial institution (when there is a financial holding company that holds the subject financial institution as its subsidiary, a copy of the inspection results notice shall be issued to the financial holding company as necessary).

On that occasion, the director-general of the bureau in charge of the inspection shall explain to the subject financial institution that inquiries may be made concerning the details of the inspection results notice later.

The inspection results notice shall be issued as early as possible after the completion of the on-site inspection through prompt examination procedures.

Regarding minor problems and challenges for which a written notice is not required, only comments are to be made at the exit meeting. Regarding challenges on a business model, etc. for which ongoing dialogues are required, a document in the form of the "FSA's findings" or "Inspection results notice" shall be issued, and regarding material problems and challenges, an "Inspection results notice" shall be issued. For the results of the on-site inspection that was conducted throughout the year, a "Feedback letter" or an "Inspection results notice" shall be used selectively in accordance with the seriousness of the ascertained incident.

(2) Monitoring Based on Inspection Results

As an on-site inspection is one of the means of financial monitoring, when inspectors and staff members in charge of ongoing monitoring are different, they should share information and closely collaborate with each other to conduct ongoing monitoring on the matters, problems and challenges ascertained through the on-site monitoring, not limited to doing follow-ups under laws and regulations based on inspection results notices.

4. Information Management

(1) Reasons for Nondisclosure of Information on Individual Inspections, etc.

Even when an inspector or other staff member receives inquiries from the outside regarding the details of an on-site inspection for an individual subject financial institution (including the fact that an on-site inspection was conducted), the relevant information should not be disclosed due to the following reasons, in principle.

- (i) There is a risk that the rights, competitive positions, or other legitimate interests of the subject financial institution and its business clients may be damaged.
- (ii) There is a risk that the effectiveness of the inspections may be undermined, such as making it difficult to accurately ascertain facts in inspections in general to be conducted in the future.
- (iii) There is a risk that the disclosure of the relevant information may not only exert a significant influence on the subject financial institution but also have an unpredictable impact on the financial situation as a whole, and that it may become difficult to secure the stability of the entire financial system.

(2) Points to Consider in Management of Information on On-Site Inspection, etc.

Inspectors or other staff members shall manage all information relating to on-site inspections, etc. appropriately in line with the Act on the Protection of Personal Information Held by Administrative Organs and other laws and regulations, and with general provisions concerning the management of administrative documents. In information management, due consideration should be given to the following points, in particular.

- (i) They must not divulge any secret that they came to know in conducting on-site inspections, etc.
- (ii) They must not use information relating to on-site inspections, etc. for any purpose other than for inspection or supervision (provided, however, excluding use that falls under a justifiable act on the basis of law).
- (iii) They must pay meticulous attention in handling information pertaining to confidential matters of subject financial institutions and the privacy of their customers, in particular.

(3) Identification of Actual Status, etc. by the Chief Document Manager, etc.

The chief document manager, etc. and the chief inspector shall ascertain whether each staff member manages the information appropriately, while taking note of the aforementioned points to consider, and shall take appropriate measures as needed.

(Note) The “chief document manager, etc.” refers to the chief document manager and the document manager specified by the FSA’s Rules for the Management of Administrative Documents (for Local Finance Bureaus, the document manager specified by the Local Finance Bureaus’ Rules for the Management of

Documents).

(4) Handling of Inspection-related Information

Information in the process of monitoring contains questions, suggestions, requests, etc. from the FSA, the details of subject financial institutions' business, the development of dialogues and the like, and needs to be managed properly.

In particular, information concerning on-site inspections, which are administrative investigation procedures based on laws and regulations (hereinafter referred to as the "inspection-related information"^(Note 1)), contains the FSA's awareness of issues and extremely sensitive information of subject financial institutions and their business clients. Disclosure of such information to a third party without the FSA's knowledge may undermine the effectiveness of on-site inspections, such as making it difficult to accurately ascertain facts and have dialogues in on-site inspections to be conducted in the future. Furthermore, this may damage the legitimate interests of subject financial institutions and their business clients, and may exert an unpredictable influence on the financial situation as a whole, resulting in making it difficult to secure the stability of the entire financial system.

Accordingly, the chief inspector shall explain that the inspection-related information must not be disclosed to any third party^(Note 2) without prior approval of the FSA, and shall obtain approval regarding this point from the subject financial institution by the first day of the on-site inspection (in a case of an on-site inspection without an advance notice, promptly after commencing the inspection).

(Note 1) The "inspection-related information" here means not only the results of an on-site inspection returned from the FSA in such forms as an inspection results notice, but includes questions, suggestions, requests, etc. from the FSA during an on-site inspection (including monitoring conducted simultaneously with the on-site inspection), data created and submitted as instructed by the FSA, and other details of communications between the FSA and officers and employees of the subject financial institution, as well as the very fact that the on-site inspection was conducted. Incidentally, data created by the financial institution without relation to the on-site inspection are not included even if they were submitted to the FSA.

(Note 2) A "third party" here does not include a bank or bank holding company prescribed in Article 2 of the Banking Act or an insurance company or insurance holding company prescribed in Article 2 of the Insurance Business Act that is in the position to manage the subject financial institution's business operations as a whole.

When the subject financial institution is a bank or an insurance company, its parent company and overseas headquarters, etc. (in a case of a foreign-affiliated financial institution) that is in the position to manage the subject

financial institution's operations as a whole is not included in the category of a "third party," in addition to the above.

However, holding companies, etc. that are not included in the category of a "third party" need to submit a written approval in the prescribed form to the FSA in advance.

The written approval thus submitted remains valid unless there is any change in the subject financial institution's business management system, such as the alteration of a holding company, etc.

5. Other

(1) Handling of Financial Institutions under Joint Jurisdiction

When conducting inspections with other ministries and agencies, prefectural inspection departments, the Deposit Insurance Corporation of Japan, and the Securities and Exchange Surveillance Commission, which have the authority to conduct inspections for financial institutions under joint jurisdiction (hereinafter referred to as "other ministries and agencies"), separate measures may be taken after discussions with other ministries and agencies, based on the purport of the Basic Procedures.

(2) Collaboration with the Securities and Exchange Surveillance Commission (SESC)

In such a case as where the subject financial institution belongs to a finance-related group that includes multiple types of financial institutions, the inspection team shall collaborate with the SESC as required, such as conducting inspections simultaneously, from the perspective of verifying the status of the group-wide risk management in an appropriate and efficient manner.

(3) Collaboration with the Bank of Japan, etc.

When conducting an on-site inspection, due consideration should be given to ensure collaboration appropriately with examinations, etc. conducted by the Bank of Japan or others.

(4) Response to Hindrance to On-Site Inspection

The Basic Procedures shown here were established on the premise of the understanding and cooperation of subject financial institutions. By fully understanding this, if there are any circumstances that seriously hinder a proper inspection, the inspection team is required to request an officer or other personnel of a subject financial institution to make improvements or otherwise take measures separately.

List of Important Matters

The important matters specified in 1.(4)(i) of the “Basic Procedures for On-Site Inspection” (hereinafter referred to as the “Basic Procedures”) are as follows.

1. Basic matters to be explained

- (1) Grounds for the on-site inspection (legal grounds, inspection order, etc.)
- (2) Date to commence the on-site inspection, name list of inspectors, major scope for verification (including the base date for inspection)

2. Matters to be adjusted before commencing the on-site inspection (in a case of an on-site inspection without an advance notice, promptly after commencing the inspection)

- (1) Details of the statements in data, etc. to be submitted in advance, submission deadline, submission method, and matters to note in creating data, etc.
- (2) Matters to be prepared by the financial institution side from the perspective of conducting the on-site inspection smoothly
- (3) Responses in the event of a natural disaster or other emergency after giving an advance notice
- (4) Requests from the subject financial institution
- (5) Methods of communication with the subject financial institution during the on-site inspection (See 2.(3), (4), (5) and (8)(i) and (iv) and other parts of the Basic Procedures.)

3. Matters to note during the on-site inspection (matters to request officers and employees to disseminate internally)

- (1) Details of the Basic Procedures
- (2) Precautions for the handling of the inspection-related information and the details of the inspection results notice and other materials (See 4.(4) of the Basic Procedures.)
- (3) Accurate report on the status of the on-site inspection to the management
- (4) Other matters to note that the chief inspector considers appropriate

4. Matters to be explained regarding various systems

Opinion exchange with an external auditor (including a request for an agreement for lifting the duty of confidentiality of the external auditor against the subject financial institution)

Relationship between Major Concurrent Business Operations and Deposits, etc. Intermediary Business Operations

		Content of the deposits, etc. intermediary business operations of a financial service intermediary							
		Deposit	Exchange transactions	Loan of funds, underwriting of bills and notes				Loans other than those stated on the left.	
				For consumers		For business operators			
		Intermediation	Intermediation	Intermediation		Intermediation		Loans other than those stated on the left.	
Loans secured by deposits, etc.	Standardized loan products that are implemented with the goods or articles to be purchased with the loan funds as security			Loans other than those stated on the left.	Loans secured by deposits, etc.	Standardized loan products			
Business operators specializing in financial service intermediary business		○	○	○	○	○	○	○	○
Content of the major concurrent business operations of a financial service intermediary	Insurance company	○	○	○	○	○	○	○	○
	General business operators	○	○	○	○	○	○	○ (A credit examination shall not be implemented.) Maximum amount: 10 million yen	×
	A person whose main business is loans, etc. - Money lender - Credit business operator - Guarantee business operator	○	○	○	○ (Credit examination shall not be implemented.)	×	○	×	×
		(A bank needs to conduct a credit examination as necessary.)							

Definitions * Loans: loans that are implemented with the goods or articles to be purchased with the loan funds as security: Examples: housing loan, automobile loan, etc.

* Standardized loan products: loan products that are determined in advance to set the appropriateness of the loan and loan conditions by mechanical processes of financial information related to persons seeking the funds, etc.

Concept [i] No limit for business operators specializing in financial service intermediary business and insurance companies.

[ii] No limit for deposits and exchange transactions.

[iii] No limit for loans secured by deposits, etc.

[iv] No limit for loans for consumers implemented by general business operators. However, a bank needs to conduct a credit examination for them as necessary.

[v] It is not allowed for business operators engaging in concurrent business (excluding insurance companies) to engage in the intermediation of loans for business operators in principle. They are only allowed to engage in the intermediation (excluding credit examination) of standardized loan products (up to 10 million yen) that are implemented by general business operators (in addition to loans secured by deposits, etc.).

[vi] It is not allowed for a person whose main concurrent business is loans, etc., to engage in the intermediation of loans in principle. They are only allowed to engage in the intermediation (excluding credit examination) of standardized loan products that are implemented with the goods or articles to be purchased with the loan funds as security (in addition to loans secured by deposits, etc.).