

Checklist for Legal Compliance

I. Development and Establishment of Legal Compliance System by Management

【 Checkpoints 】

- The development and establishment of a legal compliance system is one of the most important tasks for a financial institution in order to secure the soundness and appropriateness of its business. Therefore, the institution's management is charged with and responsible for taking the initiative in developing and establishing the legal compliance system that covers the institution's entire business by deciding a basic policy on legal compliance and developing an organizational framework, etc..
- The inspector should determine whether the legal compliance system is functioning effectively and whether the roles and responsibilities of the institution's Board of Directors are being appropriately performed by way of reviewing, with the use of check items listed in Chapter I., whether the management is appropriately implementing (1) policy development, (2) development of internal rules and organizational frameworks and (3) assessment and improvement activities.
- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter II. and later in this checklist, it is necessary to exhaustively examine which of the elements listed in Chapter I. are absent or insufficient, thus causing the said problem, and review findings thereof through dialogue between the inspector and the financial institution.
- If the institution's management fails to recognize weaknesses or problems recognized by the inspector, it is also necessary to explore in particular the possibility that the Internal Control System is not functioning effectively and review findings thereof through dialogue.
- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Policy Development

(1) Roles and Responsibilities of Directors

Do directors attach importance to legal compliance based on a full recognition that full legal compliance throughout the financial institution is vital for maintaining public confidence in the institution and securing the soundness and appropriateness of the institution's business? In particular,

are directors aware of legal problems concerning the business operations they are in charge of that need special attention and do they make absolutely sure to conduct business operations legally?

Does the director in charge of legal compliance understand not only all of the Laws (including but not limited to laws and regulations, etc.; hereinafter referred to as the “Laws”) applicable to the financial institution’s business but also how to monitor the status of legal compliance and fully enforce compliance throughout the institution? Based on such understanding, does the director appropriately grasp the status of legal compliance at the institution and consider a policy and specific measures necessary for developing and establishing an appropriate legal compliance system?

(2) Development and Dissemination of Legal Compliance Policy

Has the Board of Directors established a basic policy regarding legal compliance (hereinafter referred to as the “Legal Compliance Policy” in accordance with the institution’s corporate management policy and disseminated it throughout the institution?

(3) Revision of the Policy Development Process

Does the Board of Directors revise the policy development process in a timely manner by reviewing its effectiveness based on reports and findings on the status of legal compliance in a regular and timely manner or on an as needed basis?

2. Development of Internal Rules and Organizational Frameworks

(1) Development and Dissemination of Internal Rules

Does the Board of Directors or equivalent organization to the Board of Directors have the Manager (hereinafter simply referred to as the “Manager” in this checklist) of the division in charge of overseeing matters related to legal compliance in an integrated manner (hereinafter referred to as the “Compliance Control Division”) develop internal rules that clearly specify the arrangements on legal compliance (hereinafter referred to as the “Legal Compliance Rules”) and disseminate them throughout the institution in accordance with the Legal Compliance Policy?¹ Has the Board of Directors or equivalent organization to the Board of Directors approved the Legal Compliance Rules after determining if they comply with the Legal Compliance Policy and after legal checks, etc.?

(2) Establishment of System of the Compliance Control Division

(i) In order to fully enforce legal compliance throughout the institution, it is essential to collect, manage, analyze and examine in an integrated manner information concerning legal compliance (hereinafter referred to as the “Compliance-related Information”) scattered across the institution’s divisions and departments and, based on the results of the analysis and examination, take

appropriate steps and measures. From such a point of view, does the Board of Directors or equivalent organization to the Board of Directors have the Compliance Control Division, established in accordance with the Legal Compliance Policy and the Legal Compliance Rules, clarify its areas of responsibilities and assign it the necessary authority so as to enable the division to perform its roles and functions appropriately?¹

(ii) Has the Board of Directors allocated to the Compliance Control Division a Manager with the necessary knowledge and experience to supervise the division and enabled the Manager to implement management operations by assigning him/her the necessary authority therefor?

(iii) Has the Board of Directors or equivalent organization to the Board of Directors allocated to the Compliance Control Division an adequate number of staff members with the necessary knowledge and experience to execute the relevant operations and assigned such staff the authority necessary for implementing the operations?²

(iv) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to keep the Compliance Control Division independent from the Marketing and Sales Division and secure a check-and-balance system of the Compliance Control Division? In the case where the Compliance Control Division also takes charge of another business, the inspector should give consideration in particular to whether there is a system to prevent interference from the Marketing and Sales Division, etc.

(3) Development of Legal Compliance System in Operation Divisions and Sales Branches

(i) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to fully disseminate the relevant internal rules and operational procedures³ to operation divisions and sales branches, etc.? For example, does the Board of Directors or equivalent organization to the Board of Directors instruct the Manager or the Compliance Control Division to identify the Laws, internal rules and operational procedures to be observed by the operation divisions and to regularly carry out specific measures for ensuring observance such as providing effective training suited to the nature and responsibilities of the operations ?

¹ When the Compliance Control Division is not established as an independent division (e.g., when the division is consolidated with another risk management division to form a single division or when a division in charge of other business also takes charge of compliance control or when a Manager or Managers take charge of compliance control instead of a division or a department), the inspector shall review whether or not such a system is sufficiently reasonable and provides the same functions as in the case of establishing an independent division commensurate with the scale and nature of the institution and its risk profile.

² When a department or a post other than the Board of Directors or equivalent organization to the Board of Directors is empowered to allocate staff and assign them authority, the inspector shall review, in light of the nature of such a department or post, whether or not the structure of the Compliance Control Division is reasonable in terms of a check-and-balance system and other aspects.

³ Operational procedures are rules established, revised and abolished by a person or a division empowered by the Board of Directors or equivalent organization to the Board of Directors to do so and are subsidiary to internal rules.

- (ii) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure the effectiveness of the compliance control system in operation divisions and sales branches, etc. through the Manager or the Compliance Control Division?
- (iii) Does the Board of Directors or equivalent organization to the Board of Directors allocate a person in charge of compliance to each operation division and sales branch for coordination with the Compliance Control Division? With regard to operation divisions and sales branches for which it is especially necessary to secure the effectiveness of the legal compliance system, for example because it is difficult to monitor their operations (e.g. overseas branches), does the Board of Directors allocate a compliance officer responsible for securing legal compliance at such divisions and branches and ensure that coordination with the Compliance Control Division is maintained through the coordination between the compliance officer and the Manager while keeping independence from the Marketing and Sales Division?
- (iv) Does the Board of Directors provide a system to establish firewalls and take other measures to block the flow of information when necessary from the viewpoint of legal compliance according to the scale and nature of the institution's business? Cases that require such measures include when the prevention of insider trading and conflicts of interest in investment banking operations is necessary, for example.

(4) Development and Dissemination of Compliance Manual

Does the Board of Directors have the Manager establish, in accordance with the Legal Compliance Policy and the Legal Compliance Rules, a manual that explains the Laws that officers and employees must comply with (hereinafter referred to as the Compliance Manual) and provides specific instructions as to what measures should be taken when illegal acts are detected and disseminate the manual throughout the institution upon approval by the Board of Directors or equivalent organization to the Board of Directors? Is an important revision of the Compliance Manual subject to approval by the Board of Directors?

(5) Development and Dissemination of Compliance Program

Does the Board of Directors have the Manager formulate, in accordance with the Legal Compliance Policy and the Legal Compliance Rules, a program for implementing specific measures to ensure compliance (including the development of internal rules and planning of employee training. Hereinafter referred to as the "Compliance Program") at least once a year and disseminate it throughout the institution upon approval by the Board of Directors?

Do the representative directors and the Board of Directors regularly and accurately grasp the progress and achievement status of the Compliance Program? Do they provide a system to reflect the implementation status of the Compliance Program in the performance assessment and personnel evaluation?

(6) Arrangement for the System of Reporting to Board of Directors or equivalent organization to Board of Directors and Approval

Has the Board of Directors or equivalent organization to the Board of Directors appropriately specified matters that require reporting and those that require approval and does it have the Manager report the current status of legal compliance to the Board of Directors or equivalent organization to the Board of Directors in a regular and timely manner or on an as needed basis or have the Manager seek the approval of the Board of Directors or equivalent organization to the Board of Directors on the relevant matters? In particular, does it ensure that the Manager reports to the Board of Directors or equivalent organization to the Board of Directors without delay any matters that would seriously affect corporate management or significantly undermine customer interests?

(7) Arrangement for System of Reporting to Corporate Auditor

In the case where the Board of Directors has specified matters to be directly reported to a corporate auditor, has it specified such matters appropriately and does it provide a system to have the Manager directly report such matters to the auditor?⁴

(8) Development of Internal Audit Guidelines and Internal Audit Plan

Does the Board of Directors or equivalent organization to the Board of Directors have the Internal Audit Division appropriately identify the matters to be audited with regard to legal compliance, develop guidelines that specify the matters subject to internal audit and the audit procedure (hereinafter referred to as “Internal Audit Guidelines”) and an internal audit plan, and approve such guidelines and plan?⁵

(9) Revision of Development Process of Internal Rules and Organizational Frameworks

Does the Board of Directors or equivalent organization to the Board of Directors revise the development process of internal rules and organizational frameworks in a timely manner by reviewing its effectiveness based on reports and findings on the status of legal compliance in a regular and timely manner or on an as needed basis?

3. Assessment and Improvement Activities

1) Analysis and Assessment

(1) Analysis and Assessment of Legal Compliance System

⁴ It should be noted that this shall not preclude a corporate auditor from voluntarily seeking a report and shall not restrict the authority and activities of the auditor in any way.

⁵ The Board of Directors or equivalent organization to the Board of Directors only needs to have approved the basic matters with regard to an internal audit plan.

Does the Board of Directors or equivalent organization to the Board of Directors appropriately determine whether there are any weaknesses or problems in the legal compliance system and the particulars thereof, and appropriately examine their causes by precisely analyzing the status of legal compliance and assessing the effectiveness of the legal compliance system, based on all information available regarding the status of legal compliance, such as the results of audits by corporate auditors, internal audits and external audits, findings of various investigations and reports from various divisions? In addition, if necessary, does it take all possible measures to find the causes by way of, for example, establishing fact findings committees, etc. consisting of non-interested persons?

(2) Revision of Analysis and Assessment Processes

Does the Board of Directors or equivalent organization to the Board of Directors revise the analysis and assessment processes in a timely manner by reviewing their effectiveness based on reports and findings on the status of legal compliance in a regular and timely manner or on an as needed basis?

2) Improvement Activities

(1) Implementation of Improvements

Does the Board of Directors or equivalent organization to the Board of Directors provide a system to implement improvements in the areas of the problems and weaknesses in the Customer Protection Management system that are identified through the analysis, assessment and review referred to in 3. 1) above in a timely and appropriate manner based on the results obtained by developing and implementing an improvement plan as required or by other appropriate methods?

(2) Progress Status of Improvement Activities

Does the Board of Directors or equivalent organization to the Board of Directors provide a system to follow up on the efforts for improvement in a timely and appropriate manner by reviewing the progress status in a regular and timely manner or on an as needed basis?

(3) Revision of the Improvement Process

Does the Board of Directors or equivalent organization to the Board of Directors revise the improvement process in a timely manner by reviewing its effectiveness based on reports and findings on the status of legal compliance in a regular and timely manner or on an as needed basis?

II. Development and Establishment of Legal Compliance System by Manager

【 Checkpoints 】

- This chapter lists the check items to be used when the inspector reviews the roles and responsibilities to be performed by the Manager and the Compliance Control Division.
- If any problem is recognized as a result of a review conducted with the use of the check items listed in Chapter II., it is necessary to exhaustively examine which of the elements listed in Chapter I. are absent or insufficient, thus causing the said problem, and review findings thereof through dialogue between the inspector and the financial institution.
- If the institution's management fails to recognize problems recognized by the inspector, it is also necessary to strictly explore in particular the possibility that the systems and processes listed in Chapter I. are not functioning appropriately and review findings thereof through dialogue.
- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Roles and Responsibilities of Manager

1) Development of Internal Rules

(1) Development and Dissemination of Legal Compliance Rules

Has the Manager, in accordance with the Legal Compliance Policy, developed the Legal Compliance Rules based on a full understanding of the Laws that officers and employees must comply with according to the nature of their operations? Have the Legal Compliance Rules been disseminated throughout the institution upon approval by the Board of Directors or equivalent organization to the Board of Directors?

(2) Legal Compliance Rules

Do the Legal Compliance Rules exhaustively cover the arrangements with regard to compliance with the Laws that officers and employees must observe according to the nature of their operations and specify the arrangements appropriately? Do the rules specify the following items, for example?

- Arrangements on the roles, responsibilities and organizational framework of the Compliance Control Division
- Arrangements on the collection, management, analysis and examination of Compliance-

related Information

- Arrangements on monitoring of legal compliance
- Arrangements on legal checks, etc. (For example, which of the internal rules, contract documents and advertising documents compiled by each division and transactions and operations in which it is involved are subject to legal checks, etc. ?)
- Arrangements on implementation of training and guidance
- Arrangements on the storage and management of records on investigations conducted by the Compliance Control Division
- Arrangements on approval and screening of New Products
- Arrangements on reporting to the Board of Directors and corporate auditor, etc.

(3) Development and Dissemination of Compliance Manual

Has the Manager, in accordance with the Legal Compliance Policy and the Legal Compliance Rules, developed the Compliance Manual based on a full understanding of the importance of legal compliance in the business of financial institutions? After developing the Compliance Manual or conducting an important revision of the manual, does the Manager disseminate it throughout the institution upon approval by the Board of Directors?

(4) Compliance Manual

Does the Compliance Manual, in light of the social responsibilities and public duties of financial institutions, explain the Laws that officers and employees must comply with according to the nature of the relevant institution's business and exhaustively cover and specify in an easy-to-understand way measures to be taken when illegal acts are detected? Does the manual clearly specify the following items, for example?

- Explanation of Laws that officers and employees must comply with
- Specific and detailed notes with regard to Laws that must be complied with in relation to each operation
- Divisions and departments to be contacted when officers and employees detect suspected violation of Laws (Compliance Division, "help line," "compliance hot line," etc.)

(5) Development of Compliance Program

Does the Manager formulate a reasonable Compliance Program at least once a year in accordance with the Legal Compliance Policy and the Legal Compliance Rules and based on a full understanding of the importance of legal compliance in the business of financial institutions? After developing a new Compliance Program or conducting an important revision of the existing one, does the Manager disseminate the new program or revised one throughout the institution upon approval by the Board of Directors?

2) Development of Framework

(1) Development of System of the Compliance Control Division by Manager

- (i) Does the Manager, in accordance with the Legal Compliance Policy and the Legal Compliance Rules, provide a system to have the Legal Compliance Division prepared to exercise a check-and-balance in order to make absolutely sure to pre-empt violation of Laws and prevent the recurrence of past violation of Laws ?
- (ii) Does the Manager ensure the system of training and education to enhance the ability and knowledge of employees with regard to legal compliance, thus developing human resources with relevant expertise?

(2) Collection, Management, Analysis and Examination of Compliance-Related Information

Does the Manager provide for measures to collect in an efficient and timely manner Compliance-related Information scattered across the institution's divisions and departments according to the nature of the institution's business? Does the Manager provide a system to appropriately manage the Compliance-related Information collected and analyze it so as to use it to pre-empt violation of Laws and prevent the recurrence of the past violation of Laws? For example, does the Manager provide for a means of reporting by establishing a "help line," a "compliance hot line," etc.?

(3) Communication and Coordination System

- (i) Does the Manager, in person or through the Compliance Control Division, maintain close communication and coordination with divisions which hold Compliance-related Information?
- (ii) Does the Manager maintain coordination with a person in charge of compliance allocated to each operation division and sales branch, etc.?

(4) Monitoring System

Does the Manager, in order to ensure appropriate legal compliance at each division, make sure to monitor the status of compliance on an ongoing basis by requiring each division in a regular and timely manner or on an as needed basis to report the status of its compliance, to collect information from persons in charge of enforcing compliance on an ongoing basis or to conduct a field survey, for example?

(5) System for Handling Violation of Laws

Does the Manager provide a system to ensure that an investigation is promptly conducted in response to a report about a suspected violation of Laws if the suspicion is determined as justified as a result of analysis of Compliance-related Information and review whether or not the institution

is required under law to report the case to the authorities and report it when necessary? (The Manager may have a suitable division or department other than the Compliance Control Division investigate, review and report such a case.)

Does the Manager provide a system to make an appropriate disclosure under the Securities and Exchange Law?⁶

(6) Coordination with Customer Support Manager

(i) Does the Manager, in coordination with the Customer Support Management⁷, provide a system to collect information in a prompt and wide-ranging manner with regard to Consultation Requests, Complaints, etc.⁸ from customers that should be recognized as legitimate complaints and that may develop into legitimate complaints?

(ii) With regard to complaints that involve information related to violation of Laws, including suspected ones, does the Manager provide a system to require and obtain reports from divisions, departments and individuals that hold the relevant information and analyze and examine it so as to provide feedback to the division in charge of processing complaints?

(iii) Does the Manager provide a system to have a non-interested party conduct appropriate and sufficient investigations to identify the cause with regard to complaints determined as requiring such action?

(7) System for Training and Guidance

Has the Manager fully disseminated the details of the Compliance Manual to all of the officers and employees? Does the Manager make sure to provide sufficient training and guidance with regard to the Laws that must be complied with in each operation? Do all of the employees get fully acquainted with the need to prevent violation of Laws through training sessions and workplace morning assemblies, etc.?

(8) System for Reporting to Board of Directors or equivalent organization to Board of Directors and Approval

Does the Manager provide a system to report matters determined as necessary by the Board of Directors or equivalent organization to the Board of Directors in a regular and timely manner or on an as needed basis? In particular, does the Manager report to the Board of Directors or equivalent organization to the Board of Directors without delay any matter that would seriously affect corporate management or significantly undermine customer interests?

⁶ This shall apply only to financial institutions subject to timely disclosure rules under the Securities and Exchange Law.

⁷ See Checklist for Customer Protection Management.

⁸ See Checklist for Customer Protection Management.

(9) System for Reporting to Corporate Auditor

Does the Manager report matters specified by the Board of Directors directly to a corporate auditor?

3) Assessment and Improvement Activities

Does the Manager review the effectiveness of the Compliance Control Division's enforcement of legal compliance in a regular and timely manner or on an as needed basis based on the reports and the results of investigations concerning the status of legal compliance, including the status of compliance with the Compliance Manual and various rules, as well as based on the results of monitoring? Does the Manager present the Board of Directors or equivalent organization to the Board of Directors with proposals for improvement as necessary by revising in a timely manner the various rules (including the Compliance Manual), the organizational framework, the implementation of training and guidance and the method of monitoring?

2. Roles and Responsibilities of the Compliance Control Division

(1) Implementation of Compliance Program

Does the Compliance Control Division implement specific measures of the Compliance Program in a timely and appropriate manner, conduct follow-up verification of the status of progress and achievement and report it to the Board of Directors or equivalent organization to the Board of Directors?

(2) Communication and Collection of Information

From the viewpoint of ensuring the full enforcement of legal compliance throughout the institution, does the Compliance Control Division collect, manage, analyze and examine in an integrated manner Compliance-related Information scattered across the institution's divisions and departments and, based on the results of the analysis and examination, take appropriate steps and measures? In particular, does the division collect information in close coordination with persons in charge of compliance allocated to operation divisions and sales branches, etc?

(3) Monitoring of Legal Compliance

Does the Compliance Control Division monitor the status of legal compliance at operation divisions and sales branches, etc. on an ongoing basis in order to ensure full legal compliance throughout the institution?

For example, does the division conduct monitoring by requiring reports in a regular and timely manner or on an as needed basis from persons in charge of compliance with regard to the status of legal compliance at operation divisions and sales branches, etc., or by collecting

information on an ongoing basis and conducting a field survey in a timely manner?

(4) Handling of Violation of Laws

- (i) When the Compliance Control Division detects a suspected case of violation of Laws as a result of the examination of Compliance-related Information or receives a report about such a case, does the division immediately conduct a fact-finding investigation or have a non-interested division or department conduct such an investigation and determine whether or not the case constitutes a violation of Laws and review whether or not there is any weakness in the legal compliance system?
- (ii) Does the Compliance Control Division immediately report to the Manager an incident determined as a result of the fact-investigation mentioned in (i) above as constituting a violation of Laws or as having a high probability of constituting an illegal act and take appropriate measures in coordination with the relevant divisions and departments? Does the division at this stage consider whether or not it is necessary to report the incident as an illegal act to the authorities as required under law, whether or not to report it as a suspicious transaction and whether or not to disclose it publicly?
- (iii) Does the Compliance Control Division investigate the background and cause of a violation of Laws act and the extent of its impact or have a non-interested division or department conduct such an investigation and then analyze the case and report the results of the analysis to the Manager?
- (iv) Does the Compliance Control Division feed back the results of the analysis mentioned above to the Managers of the relevant divisions and sales branches in order to prevent the recurrence of the case and promptly take prevention measures or have another division do so?

(5) Coordination with Customer Support Manager

- (i) Does the Compliance Control Division appropriately maintain coordination with the Customer Support Manager as required under the Customer Protection Management System and provide advice to help facilitate customer support?
- (ii) Does the Compliance Control Division collect information in a prompt and wide-ranging manner with regard to requests for consultations and complaints from customers⁹ that should be recognized as legitimate complaints or that are likely to develop into legitimate complaints?
- (iii) With regard to requests for consultations and complaints that involve information concerning violation of Laws, does the Compliance Control Division require and obtain reports from divisions, departments and individuals that hold the relevant information in an appropriate manner, analyze and examine the information and provide feedback to the division in charge of processing complaints?
- (iv) Does the Compliance Control Division have non-interested parties conduct appropriate and

⁹ See Checklist for Customer Protection Management.

sufficient investigations to identify the cause with regard to requests for consultations and complaints determined as requiring such action?

(6) Roles of Persons in Charge of Compliance

Do persons in charge of compliance keep under unified control Compliance-related Information at the divisions and departments to which they are allocated, communicate the information to the Compliance Control Division in a regular and timely manner or on an as needed basis and appropriately engage in efforts to ensure compliance at the divisions and departments? Do they perform their functions fully based on the legal knowledge accumulated with regard to their operations?

III. Specific Issues

【 Checkpoints 】

- This chapter lists the check items to be used when the inspector reviews specific issues particular to the actual status of legal compliance. It should be noted that although this chapter lists points of attention concerning representative Laws, it is also necessary to review whether the financial institution inspected has in place an appropriate system to prevent violation of other Laws applicable to it and whether there is not actually any violation of Laws.

- If any problem is recognized as a result of reviews conducted with the use of the check items listed in Chapter III., it is necessary to exhaustively examine which of the elements listed in Chapters I. and II. are absent or insufficient, thus causing the said problem, and review findings thereof through dialogue between the inspector and the financial institution.

- If the institution's management fails to recognize problems recognized by the inspector, it is also necessary to strictly explore in particular the possibility that the systems and processes listed in Chapter I. are not functioning appropriately and review findings thereof through dialogue.

- The inspector should review the status of improvements with regard to the issues pointed out on the occasion of the last inspection that are not minor and determine whether or not effective improvement measures have been developed and implemented.

1. Customer Identity Verification

(1) Development of Internal Rules/Operational Procedures Concerning Customer Identity Verification

Does the Board of Directors or equivalent organization to the Board of Directors have internal rules or operational procedures concerning customer identity verification (hereinafter referred to as the "Customer Identity Verification Rules") established? Are the Customer Identity Verification Rules subject to legal checks, etc. and approval by the Board of Directors or equivalent organization to the Board of Directors? Do the Customer Identity Verification Rules specify the arrangements on the opening of customer accounts (e.g. criteria for rejecting customer requests for account opening), for example?¹⁰

¹⁰ The Customer Identity Verification Rules may not be available as a single set of rules in some cases, and they may be integrated with the Compliance Manual, etc. in other cases. The inspector should empirically review, regardless of the form of rules, whether or not the rules exhaustively stipulate necessary matters and are fully disseminated to the personnel who should be acquainted with them, upon approval by the Board of Directors or equivalent organization to the Board of Directors, thus ensuring an

(2) Development of Customer Identity Verification System

- (i) Does the Board of Directors or equivalent organization to the Board of Directors have a person in charge of customer identity verification appointed or a department in charge thereof established?
- (ii) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure that matters concerning customer identity verification that would seriously affect corporate management are reported to the Compliance Control Division, the Internal Audit Division and the Board of Directors or equivalent organization to the Board of Directors without delay?
- (iii) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure that records on customer identity verification and transactions are compiled and stored appropriately?

(3) Guidance and Training Concerning Customer Identity Verification

Does the person or department in charge of customer identity verification disseminate the Customer Identity Verification Rules and related operational procedures to all of the relevant employees by providing guidance and training regularly or through other means in order to ensure that customer identity verification is conducted in a timely and appropriate manner?

(4) Points of Attention Concerning Customer Identity Verification

- (i) When verifying the identity of a corporate customer, does the institution verify the identity of the corporation's person in charge of transactions?
- (ii) With regard to a transaction conducted through an agent, does the institution verify the identity of both the customer and the agent?
- (iii) With regard to a transaction for which a customer identity verification has been already done, does the institution re-check the customer identity where required by laws and ordinances?
- (iv) With regard to a case in which a customer identity verification of a customer has been done at an overseas head office, branch office, subsidiary or affiliate, does the institution re-check the identity of the customer when he or she opens an account in Japan as required by laws and ordinances?

2. Suspicious Transactions

(1) Development of Internal Rules and Operational Procedures Concerning Suspicious Transactions

effective customer identity verification system.

Does the institution have in place internal rules concerning money laundering and other suspicious transactions (hereinafter referred to as the Suspicious Transaction Rules) or operational procedures concerning such transactions? Are the Suspicious Transaction Rules subject to legal checks, etc. and approval by the Board of Directors or equivalent organization to the Board of Directors? Do the rules specify the following items, for example?

- Arrangements on judgment with regard to suspicious transactions (e.g. judgment criteria, specific examples and the focus of the judgment authority)
- Arrangements on measures to be taken with regard to suspicious transactions (e.g. reporting to the authorities and suspension of the use of accounts for transactions and contract cancellation)
- Arrangements on communication of information when suspicious transactions are detected
- Arrangements on the storage and management of records on suspicious transactions

(2) System for Handling Suspicious Transactions

- (i) Does the Board of Directors have a person in charge of handling suspicious transactions appointed or a department in charge thereof established? Does the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure that officers and employees disseminate in a timely manner to the person or the department in charge information concerning cases that may constitute suspicious transactions?
- (ii) Does the person or department in charge of handling suspicious transactions report such transactions without delay to the authorities in accordance with the Suspicious Transaction Rules? Does the person or department in charge, when a transaction is determined as a suspicious transaction, take appropriate measures as necessary in a timely manner with regard to the transaction and the relevant customer account in accordance with the Suspicious Transaction Rules or related operational procedures?
- (iii) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to report a suspicious transaction to the authorities in an appropriate manner based on information concerning the attributes of the party concerned, the situation at the time of the transaction and other details related to the transaction that the institution holds?
- (iv) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to have the person or department in charge of handling suspicious transactions regularly report to the Board of Directors or equivalent organization to the Board of Directors the key points of reports from sales branches, etc. with regard to suspicious transactions?
- (v) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure that matters concerning suspicious transactions that would seriously affect corporate management are reported to the Compliance Control Division and the Internal Audit

Division as well as the Board of Directors or equivalent organization to the Board of Directors without delay?

(vi) Does the Board of Directors or equivalent organization to the Board of Directors provide a system to ensure that all suspicious transactions are reported to the authorities?

(3) Guidance and Training Concerning Suspicious Transactions

Does the person or department in charge of handling suspicious transactions seek to ensure that suspicious transactions are reported and other appropriate measures are taken with regard to such transactions in a timely manner by regularly providing guidance and training to the relevant employees?

(4) Points of Attention in Examining Suspicious Transactions

(i) Does the institution build a database of cases of suspicious transactions and disseminate the obtained results throughout the relevant divisions by compiling reference casebook depicting examples of suspicious transactions, for example?

(ii) Does the institution fully collect and accumulate information concerning the attributes of the parties the transactions with whom should be treated as suspicious transactions and the nature of suspicious transactions?

(iii) It should be noted that in the case where the number of suspicious transactions reported by the institution is markedly small relative to the scale and nature of its business, it is necessary to carefully verify whether the institution's judgment criteria for suspicious transactions are effective.

3. Handling of Anti-Social Forces

(1) Development and Dissemination of Policy on Handling of Anti-Social Forces, Compliance Manual, etc.

(i) Do directors fully understand that prohibiting association with anti-social forces and excluding such forces firmly is vital for maintaining public confidence in the financial institution and securing the appropriateness and soundness of the institution's business?

(ii) Has the Board of Directors made clear the policy of prohibiting association with anti-social forces and excluding such forces firmly and disseminated the policy to all of the institution's officers and employees?

(iii) Does the Compliance Manual explain how to handle anti-social forces in an easy-to-understand way and clearly indicate the contact information concerning the section and person in charge of such handling? Is a similar arrangement in place at subsidiaries etc. as necessary?

(2) Development of System for Handling of Anti-Social Forces

Does the Board of Directors have such an organizational framework as mentioned below in place to handle anti-social forces systematically?¹¹

- (i) Does the institution have a department in charge of collecting and analyzing internal and external information concerning anti-social forces and managing such information in an integrated manner?
- (ii) Is there a system for conducting prior screening to prevent transactions with anti-social forces?
- (iii) Is there an arrangement for collaboration and communications across the relevant divisions?

(3) Roles of Department in Charge of Handling of Anti-Social Forces

- (i) When contacted by an officer or employee with regard to how to handle anti-social forces, does the department in charge provide guidance to ensure appropriate handling while maintaining coordination with the police, administration, lawyers and bar association as necessary?
- (ii) Has the department in charge disseminated the portions of the internal rules and the Compliance Manual concerning transactions with anti-social forces to all of the officers and employees through training, guidance, etc.?

4. Handling of Violation of Laws

(1) Clarification of Responsibility Concerning Violation of Laws

- (i) Does the institution provide a system to have an entity independent from the department where a violation of Laws occurred investigate the case, seek to hold the person or persons involved to account and clarify the supervisory responsibility?
- (ii) Does the institution appropriately clarify the responsibility of the person or persons who conducted a violation of Laws and the Manager in charge of supervision thereof and hold them to account?

(2) Reward and Punishment and Personnel Evaluation

In rewarding and punishing employees and evaluating their work performance, does the institution fully take their status of legal compliance into consideration? For example, does the institution exclude employees whose legal compliance is questionable from its in-company awards system as a way to attach importance to legal compliance?

5. Legal Checks System

(1) Development of Legal Checks System Concerning Transactions and Businesses

Does the institution provide a system to ensure appropriate legal checks, etc. from the

¹¹Refer as necessary to “Manual for Implementing Charter of Corporate Code” by Nippon Keidanren, etc.

viewpoint of legal compliance in accordance with the Legal Compliance Rules? With regard to the legality of matters determined as subject to legal checks, etc. does the institution conduct careful prior examination from the legal and compliance perspective? For example, does the institution provide a system to conduct especially careful examination with regard to the legality of the following matters? Are the range of documents, transactions and businesses subject to legal checks, etc. and the focus of responsibility for the checks specified and disseminated throughout the institution?

- Legality of a new business
- Arrangements on the opening of customer accounts and other transactions at overseas head and branch offices, overseas subsidiaries, etc.
- Transactions in which abuse of a dominant position may arise
- Compliance on the occasion of a capital increase
- Legality of transactions with a complex scheme (e.g. liquidation of assets including off-balance sheet assets, non-performing loan disposals, transactions conducted for the purpose of realizing unrecognized profits, transactions that involve issuance of a special type of classified shares and corporate bonds)
- Cases that require examination of possible conflicts of interest, such as where the institution is involved in the same scheme with two or more roles such as arranger and lender
- Non-standardized transactions in the so-called private banking business, etc.
- Legality of intra-group transactions subject to the “arms’ length rules”
- Conclusion of correspondence contracts
- Disclosure as required by laws and ordinances
- Other documents, transactions, businesses, etc. that are reasonably and objectively determined as involving high legal risk

(2) Points of Attention Concerning Legal Checks, etc.

- (i) When conducting legal checks, etc., does the institution ensure that background information and the underlying facts necessary for judgment on legality are provided with regard to documents such as the internal rules, contracts, and advertisements written by the relevant division as well as transactions and businesses in which the division is involved?
- (ii) In the case where the legal checks, etc. is conducted by an outside lawyer, does the institution fully examine the details of the legal opinions provided before implementing transactions, etc.?