

RULES CONCERNING EMPLOYEES OF ASSOCIATION MEMBERS

(November 14, 1974)

CHAPTER I. GENERAL PROVISIONS

(Purpose)

Article 1 The purpose of the Rules Concerning Employees of the Association Members (hereinafter referred to as “Rules”) is, in view of the public nature and importance of the social mission of the Financial Instruments Business, to contribute to the investor protection by prescribing the service standards, etc., for the Employees of the Association Members as well as defining the responsibilities of the Association Members to supervise their employees.

(Definitions)

Article 2 In these Rules, the definition of the terms set forth in each of the following Items shall be prescribed therein:

- (1) Securities: Securities prescribed in the provision of Article 3, Item 1 of the Articles of Association;
- (2) Sale and Purchase or Other Transactions of Securities, etc.: Sale and Purchase or Other Transactions of Securities, etc. prescribed in the provision of Article 3, Item 8 of the Articles of Association;
- (3) OTC Derivative Transactions, etc.: Over-The-Counter Derivative Transactions, etc. prescribed in the provision of Article 3, Item 5 of the Articles of Association;
- (4) Specified OTC Derivative Transactions, etc.: Specified Over-The-Counter Derivative Transactions prescribed in the provision of Article 3, Item 7 of the Articles of Association;
- (5) Securities-Related Derivative Transactions, etc.: Securities-Related Derivative Transactions, etc. prescribed in the provision of Article 3, Item 4 of the Articles of Association;
- (6) Employee: any person set forth as follows:
 - (a) Any person employed by a Regular Member (including those who are accepted as a seconded worker; the same shall apply in this Item) and assigned to its head office, other business office or office located in Japan (head office, other business offices or offices prescribed in the provision of Article 29-2, Paragraph 1, Item 6 of the Financial Instruments and Exchange Act (hereinafter referred to as “FIEA”); the same shall apply in (b) below);
 - (b) Any person employed by a Specified Business Member and engaged in the Specified Business (which means the business set forth in Article 5, Item 2 (a) or (b) of the Articles of Association; the same shall apply hereinafter) in its head office, other business office or office located in Japan;
 - (c) Any person employed by a Special Member and engaged in the registered financial institution business prescribed in the provision of Article 5, Item 3 of the Articles of Association

(hereinafter referred to as “Registered Financial Institution Business”) in its head office, other business office or office located in Japan (head office, other business offices or offices as prescribed in Article 33-3, Paragraph 1, Item 5 of the FIEA) (including those who are engaged in the specified financial instruments transaction business prescribed in the provision of Article 33-8, Paragraph 2 (hereinafter referred to as “Specified Financial Instruments Transaction Business”); and

- (d) For dispatched workers under the Law for Securing the Proper Operation of Worker Dispatching Undertakings and Protection of Dispatched Workers, any person who is registered as the Sales Representative prescribed in the provision of Article 64, Paragraph 1 of the FIEA.
- (7) Financial Instruments Intermediary Service Provider: Financial instruments intermediary service provider prescribed in Article 3, Item 9 of the Articles of Association.
- (8) Individual Financial Instruments Intermediary Service Provider: Individual financial instruments intermediary service provider prescribed in Article 3-2 of the Rules Concerning Financial Instruments Intermediary Service Providers (hereinafter referred to as the Financial Instruments Intermediary Service Provider Rules”).

CHAPTER II. HIRING

(Hiring of Employees)

Article 3 An Association Member must, in hiring a person as an Employee (hereinafter referred to as “Hiring”), examine the career, etc. of the applicant to make sure his/her integrity and competence in light of the purpose of Article 1.

(Handling Etc. of Employees Breaching Laws and Regulations)

Article 3-2 When an Association Member finds in the examination prescribed in Article 3 that a person to be hired is subject to Article 13 of the “Rules Concerning Qualification and Registration, Etc. of Sales Representatives of Association Members” (hereinafter referred to as the “Sales Representative Rules”), Article 23 of the Financial Instruments Intermediary Service Provider Rules, or Article 8, Paragraph 4 of the “Rules Concerning Internal Administrators, Etc. of Association Members” (hereinafter referred to as the “Internal Administrator Rules”), or a person was regarded as Class-2 Perpetrator of an Inappropriate Act by the Association pursuant to Article 12, Paragraph 1 of the Rules, it shall conduct a training course, etc. regarding the prevention of breaches of laws and regulations, and the protection of investors.

(Prohibition of Hiring)

Article 4 An Association Member must not hire any person employed by other Association Member as an employee of its own; provided, however, that this provision shall not apply to the case where an Association Member hires a person employed by another Association Member in the form of seconded worker or the case where an Association Member is a parent financial institution etc. of the other Association Member that is prescribed in Article 36, Paragraph 4 of the FIEA or a subsidiary financial institution, etc. of other Association Member that is prescribed in Paragraph 5 of the same Article (hereinafter referred to as the “Parent/Subsidiary Financial Institution, etc.”), or if the other Association Member is a Parent/Subsidiary Financial Institution, etc. of the Association Member and the employee to be hired is an employee thereof.

2. An Association Member must not hire any person who has been treated as a Class-1 perpetrator of an inappropriate act by the Association prescribed in the provision of Article 12, Paragraph 1, regardless of whatever name he/she may use.
3. An Association Member must not hire any person who has been treated as a Class-2 perpetrator of an inappropriate act by the Association prescribed in the provision of Article 12, Paragraph 1 hereof during the period of five years from the date when the decision on such treatment is made regardless of whatever name he/she may use.

(Reference to the Association)

Article 5 If an Association Member intends to hire a person who used to be an Employee of another Association Member, Financial Instruments Intermediary Service Provider or used to be a Sales Representative thereof, or who is currently an Employee of another Association Member, Financial Instruments Intermediary Service Provider or a Sales Representative thereof, it must refer to the Association using a designated method whether or not such person has been treated as the Class-1 perpetrator of an inappropriate act that is prescribed in Article 12, Paragraph 1.

2. If an Association Member intends to hire a person who was an Employee of another Association Member, a Financial Instruments Intermediary Service Provider or a Sales Representative thereof in the past five years, or who is currently an Employee of another Association Member, Financial Instruments Intermediary Service Provider or currently a Sales Representative thereof, it must refer to the Association using a designated method to determine whether or not such person has been treated and has received any decision concerning action and disciplinary action set forth in each Item of Paragraph 5.
3. If an Association Member intends to hire a person who is seconded from another Association Member, who was seconded to another Association Member and is to be returned, or a person who is an Employee of another Association Member which is a parent or subsidiary financial institution etc. of such Association Member, the provisions in the preceding two Paragraphs shall not apply.
4. When the Association receives a request for reference under the provision of Paragraph 1, it shall reply to the Association Member which made such reference using a designated method whether or not the referred person has been treated as a Class-1 perpetrator of an inappropriate act and a summary thereof without delay.
5. When the Association receives a request for reference under the provision of Paragraph 2, it shall reply to the Association Member which made such reference using a designated method whether or not the referred person has been subject to any treatment and decision concerning any action or disciplinary action by the Association that are set forth in each Item below in the latest five years from the reply date and a summary thereof without delay:
 - (1) Decision that he/she has been a Class-2 perpetrator of an inappropriate act pursuant to the provision of Article 12, Paragraph 1;
 - (2) Disciplinary action ordering his/her registration of Sales Representative to be revoked or his/her performance of Duty of Sales Representative to be suspended pursuant to the provision of Article 64-5, Paragraph 1 of the FIEA (including the cases that apply *mutatis mutandis* to Article 66-25 of the FIEA);
 - (3) Decision concerning the Action Prohibiting Business of Sales Representative pursuant to the provision of Article 6, Paragraph 1 of the Sales Representative Rules (including cases where it applies *mutatis mutandis* to Paragraph 6 of the same Article);

- (4) Decision concerning the Action Prohibiting Business of Sales Representative pursuant to the provision of Article 29, Paragraph 1 of the Financial Instruments Intermediary Service Provider Rules;
- (5) Decision concerning the Action Prohibiting the Appointment and Allocation of Sales Manager or Internal Administrator pursuant to the provision of Article 17, Paragraph 1 or Article 18, Paragraph 1 of the Internal Administrator Rules.

CHAPTER III. SERVICE STANDARDS

(Basic Service Standards)

Article 6 An Association Member must have its Employees recognize public nature and importance of the social mission of the Financial Instruments Business and do their best efforts to perform their own duties based on the spirit of the protection of investors.

(Prohibited Acts)

Article 7 When an Association Member (excluding Specified Business Members conducting only the electronic trading platform operation business prescribed in Article 1, Paragraph 4, Item 16 of the Cabinet Office Ordinance on Financial Instruments Business, etc.; the same shall apply in this Paragraph) is informed by an employee of other Association Member that the said employee is an Employee of other Association Member, the Association Member must not receive from such Employee, regardless of whatever name the Employee concerned may use, any order on account of, or through the brokerage of, the Employee concerned for the Sale and Purchase or Other Transactions of Securities, etc. (or the Specified Business conducted by the Specified Business Member in case the other Association Member is a Specified Business Member, or the transactions related to the Registered Financial Institution Business made by a Special Member in case the other Association Member is a Special Member; the same shall apply hereinafter); provided, however, the foregoing shall not apply to each of the cases set forth in the following Items:

- (1) where a consent in writing to the transactions has been received from the other Association Member,
 - (2) where the transaction related to such Employee is a transaction of securities other than the specified securities, etc. prescribed in the provision of Article 163, Paragraph 1 of the FIEA;
 - (3) where the transaction related to such Employee is a transaction of share certificates or share option certificates related to the Equity-based Crowdfunding Business prescribed in Article 2, Item 2 of the Rules Concerning Equity Crowdfunding Business
 - (4) where the transaction related to such Employee (limited to the employee of a Special Member) is a transaction of securities prescribed in the provision of Article 33, Paragraph 2, Items 3 and 4 of the FIEA.
2. When an Association Member is informed by its own Employee or an Employee of another Association Member that the person is an Employee of another Association Member, the Association Member must not receive from such Employee, regardless of whatever name he/she may use, any order for margin transactions, Securities-Related Derivative Transactions, etc. or the Specified OTC Derivative Transactions, etc.; provided, however, that it shall not apply to the cases set forth in each Item below:
- (1) A transaction made by its own Employee is for shares or stock options (including the shares and

stock options of the parent company if the Association Member is a consolidated subsidiary) which are determined to be granted to such Employee as part of compensation by the Association Member, and during the period prescribed below, the transaction of such shares and stock options is (i) made for the purpose of reducing risks associated with the ownership of such shares or stock options that is prescribed in the provision of Article 2, Paragraph 21, Item 3 of the FIEA, (ii) those prescribed in the provision of Article 22, Item 3 of the FIEA, and (iii) those prescribed in the provision of Article 23 of FIEA and are similar to the transaction prescribed in Article 21, Item 3 of the FIEA, and approved by the Association Member that the transaction is not for pursuing a speculative profit.

(a) Shares: From the date when the decision is made to grant the shares, to the date when the shares is actually granted.

(b) Stock options: From the date when the decision is made to grant the stock options, to the date when the option is exercisable.

(2) In case the Association Member receives a written consent of the other Association Member that the transaction made by the Employee of the other Association Member is subject to those under the preceding Item.

3. An Association Member must ensure that its Employees do not engage in the acts under the provisions of the FIEA and related laws and regulations as the prohibited acts of employees of Financial Instruments Business Operators (including the acts applied *mutatis mutandis* to the employees of Registered Financial Institutions) and any act enumerated in each of the following Items:

(1) To make an offer or promise, or to have a third party make an offer or promise, to a customer (including entrusting customers in cases where a trust company, etc., (a trust company or a financial institution that is authorized pursuant to the provision of Article 1, Paragraph 1 of the Act on Provision, Etc. of Trust Business by Financial Institutions; the same shall apply hereinafter) effects in Sale and Purchase or Other Transactions of Securities, Securities-Related Derivative Transactions, or the Specified OTC Derivative Transactions on the account of the customer entrusting in accordance with a trust agreement; the same shall apply hereinafter in this Item, the following Item and Item 3 below) or a person designated by the customer, with respect to Sale and Purchase or Other Transactions of Securities (excluding transactions effected on the condition of repurchase at a pre-determined repurchase price and other transactions prescribed in the provision of Article 16-5 of the Financial Instruments and Exchange Act Enforcement Order (hereinafter referred to as "FIEA Enforcement Order"); the same shall apply in the following Item and Item 3 below), Securities-Related Derivative Transactions (the Securities-Related Derivative Transactions prescribed in the provision of Article 3, Item 7 (b) of the Articles of Association; the same shall apply hereinafter), or the Specified OTC Derivative Transaction (the Specified OTC Derivative Transaction prescribed in the provision of Article 3, Item 7 of the Articles of Association; the same shall apply hereinafter), to the effect that an Association Member or a third party shall provide financial returns to the customer concerned or a third party in order to compensate for or cover the whole or part of a loss or unrealized profit if the customer incurs a loss or if a predetermined amount of profits is not realized in regard to such securities, Securities-Related Derivative Transactions, or Specified OTC Derivative Transactions (hereinafter referred to as "Securities");

(2) To make an offer or promise, or to have a third party make an offer or promise, to a customer or a person designated by the customer to the effect that with respect to Sale and Purchase or Other Transactions of Securities, Securities-Related Derivative Transactions or Specified OTC Derivative Transactions, an Association Member or a third party shall provide financial returns to the customer concerned or a third party in order to compensate for or cover the whole or part of a loss or to add to the customer's profits arising from such Securities;

- (3) To offer, or to have a third party offer, financial returns to a customer or a third party with respect to the Sale and Purchase or Other Transactions of Securities, Securities-Related Derivative Transactions or Specified OTC Derivative Transactions in order to compensate for the whole or part of a loss arising from such transactions or to add to the customer's profits arising from such Securities;
- (4) To place an order with other Association Member, on account of or through the brokerage of such Employee regardless of whatever name he/she may use, for the Sale and Purchase or Other Transactions of Securities, etc. without obtaining a written consent from the Association Member to which he/she belongs to; provided, however, the foregoing shall not apply to each of the cases set forth in the following Items:
 - (a) where the transaction related to such Employee is a transaction of securities other than the specified securities, etc. prescribed in the provision of Article 163, Paragraph 1 of the FIEA;
 - (b) where the transaction related to such Employee is a transaction of share certificates or share option certificates related to the Equity Crowdfunding Business prescribed in Article 2, Item 2 of the Rules Concerning Equity Crowdfunding Business;
 - (c) where the transaction related to such Employee (limited to the employee of a Special Member) is a transaction of securities prescribed in the provision of Article 33, Paragraph 2, Item 3 or 4 of the FIEA;
 - (d) where such Employee is an employee of a Specified Business Member conducting only the electronic trading platform operation business prescribed in Article 1, Paragraph 4, Item 16 of the Cabinet Office Ordinance on Financial Instruments Business, etc.
- (5) **DELETED;**
- (6) To engage in margin transactions, Securities-Related Derivative Transactions, or the Specified OTC Derivative Transactions (excluding the reverse trades and the physical deliveries that are made to settle the transaction of the margin Transaction, the Securities-Related Derivative Transaction, or the Specified OTC Derivative Transactions), on his/her own account, regardless of whatever name he/she may use; provided, however, that it shall not apply to cases where shares or stock options (including the shares and stock options of the parent company if the Association Member is a consolidated subsidiary) are determined to be granted to such Employee by the Association Member as part of compensation, and during the period prescribed below, the transaction of such shares and stock options is (i) made for the purpose of reducing risks associated with the ownership of such shares or stock options that is prescribed in the provision of Article 2, Paragraph 21, Item 3 of the FIEA, (ii) those prescribed in the provision of Paragraph 22, Item 3 of the same Article, and (iii) those prescribed in the provision of Paragraph 23 of the same Article and are similar to the transaction prescribed in Paragraph 21, Item 3 of the same Article and approved by the Association Member that the transaction is not for pursuing a speculative profit:
 - (a) Shares: From the date when the decision is made to grant the stocks, to the date when the share is actually granted;
 - (b) Stock options: From the date when the decision is made to grant the stock options, to the date when the option is exercisable.
- (7) To make a solicitation for Sale and Purchase or Other Transactions of Securities, etc. with an excessive quantity in light of the amount of investment funds or other information that has come to the knowledge of the Employee through the customer card, etc.;

- (8) To solicit a customer for Sale and Purchase or Other Transactions of Securities, etc. by promising to share with the customer concerned profits or losses resulting from the transaction concerned, or to carry out such a promise;
- (9) To become the counterparty of the transaction for executing an order from a customer for Sale and Purchase or Other Transactions of Securities, etc.
- (10) To allow a customer to use the concerned Employee's own name or address or the name or address of his/her relative or of a person who has a special relationship with him/her for Sale and Purchase or Other Transactions of Securities, or transferring such securities;
- (11) To receive from a customer an order for Sale and Purchase or Other Transactions of Securities, etc. while knowing that the customer concerned has used a false or fictitious name for such transaction;
- (12) To use the name or address of a customer for Sale and Purchase or Other Transactions of Securities, etc. on the concerned Employee's own account;
- (13) To process name transfer of securities or other formalities requested by his/her customer without procedure of the Association Member to which he/she belongs;
- (14) To fail to deliver without a delay to the Association Member to which he/she belongs to the money or securities which his/her customer has deposited and instructed him/her to deliver to the Association Member, or to fail to deliver without a delay to a customer the money and securities (for a Specified Business Member, limited to the money and securities related to the Specified Business, and for a Special Member, limited to the money or securities related to the Registered Financial Institution Business) which the Association Member to which he/she belongs has instructed him/her to deliver to the customer concerned;
- (15) To fail to deliver without a delay to a customer documents concerning business (for a Specified Business Member, limited to the documents relating to Specified Business, and for a Special Member, limited to the documents relating to Registered Financial Institution Business) which the Association Member to which he/she belongs has deposited and instructed him/her to deliver to the customer concerned;
- (16) To lend to or borrow money or securities in connection with Sale and Purchase or Other Transactions of Securities, etc. (including temporary advance for the customer's obligations) from a customer. ;
- (17) To leak secrets that have come to his/her knowledge in the course of the performance of his/her duties (for a Specified Business Member, limited to the secrets relating to the Specified Business, for a Special Member, limited to the secrets relating to Registered Financial Institutions Business);
- (18) To conduct a preferential allotment of public offering shares to specified parties concerned before the public offering that is prescribed in the provision of Article 2, Paragraph 2 of the "Rules Concerning Distribution to Customers Related to Underwriting, Etc. of Public Offering, Etc. of Share Certificates, Etc." (excluding the cases that meet the provisions of the same Paragraph);
- (19) To place an advertisement or offer premium at the Employee's own discretion, without undergoing examination by the Advertising Examining Officer (the "Advertising Examining Officer" prescribed in Article 5 of the "Rules Concerning Representation of Advertising, Etc. and offer of Premiums");

- (20) To make a transaction or solicit a customer to make a transaction related to the Registered Financial Institution Business by promising to offer a special advantage related to the extension of loan and the giving of a guarantee, etc.;
- (21) To make, in connection with a transaction relating to the Registered Financial Institution Business, any credit extension that clearly represents the acceptance of an initial or additional margin;
- (22) In the transaction related to the Financial Instruments Intermediary Service as a Registered Financial Institution (business set forth in Article 33, Paragraph 2, Item 3 (c) and Item 4 (b) of the FIEA (excluding the rights that are set forth in each Item of Article 2, Paragraph 2 of the FIEA and that are regarded as the securities prescribed in Article 2, Paragraph 2 of the FIEA); the same shall apply hereinafter) to do the Financial Instruments Intermediary Service as a Registered Financial Institution with the customer assuming that a credit is automatically provided or promise to the customer to automatically provide a credit to the customer's account opened in the Association Member when it does not have sufficient fund;
- (23) To receive an order for a sale of securities from a customer that is conducted in a financial instruments exchange market without confirming whether or not such sale of securities is a short sale (a "short sale" prescribed in the provision of Article 26-2-2, Paragraph 1 of the FIEA Enforcement Order; the same shall apply in the following Item and Item 25 below); provided, however, that this provision shall not apply to cases where the transactions are those prescribed in the provision of Article 11 of the Cabinet Office Ordinance Concerning Transaction Control on Securities (hereinafter referred to as the "Transaction Control Ordinance"). The provisions in the body text and proviso of this Item shall apply mutatis mutandis to sale of securities in the private trading system (the private trading system prescribed in the provision of Article 26-2-2, Paragraph 7 of the FIEA Enforcement Order) (the same shall apply in the following Item);
- (24) To conduct a short sale of securities entrusted by a customer in a financial instruments exchange market at a price not more than the Most Recent Public Price (The Most Recent Public Price defined in Article 26-4, Paragraph 1 of the FIEA Enforcement Order) if this case meets any of the Items of Article 26-4, Paragraph 1 of the FIEA Enforcement Order; provided, however, that the transactions prescribed in the provision of Article 15 of the Transaction Control Ordinance and transactions for which the Most Recent Public Price is used when the price that was publicly announced before the announcement of the Most Recent Public Price is different from the Most Recent Public Price and exceeds the Most Recent Public Price are excluded (the same shall apply in the following Item);
- (25) To direct other Regular Member to conduct a short sale at a price not more than Most Recent Public Price of such securities when entrusting such Regular Member with the short sale ordered by a customer;
- (26) When soliciting a customer to switch (meaning partial cancellation of the investment trust contract related to the investment trust beneficiary certificates, etc. the customer currently holds or refund of investment units, or sale of investment trust beneficiary certificates, etc., or entrusted acquisition or purchase of the investment trust beneficiary securities, or such entrustment; the same shall apply hereinafter) to other investment trust beneficiary certificates, etc. (beneficiary certificates of investment trusts or foreign investment trusts (excluding those set forth in Article 65, Item 2 (a) through (c), of the Cabinet Office Ordinance on Financial Instruments Business, Etc. and those with the same nature), investment securities or foreign investment securities equivalent to investment securities; and excluding those listed on a Financial Instruments Exchange Market; the same shall apply hereinafter), not to provide the customer (excluding professional investors (the professional investors prescribed in the provision of Article 2, Paragraph 31 of the FIEA (excluding the customers regarded as non-professional investors pursuant to Article 34-2,

Paragraph 5 of the FIEA, and including those regarded as the professional investors pursuant to Article 34-3, Paragraph 4 (including cases which apply where it applies *mutatis mutandis* to Article 34-4, Paragraph 6)); the same shall apply in the following Item and Item 28 with principal matters regarding such switching;

- (27) To conduct the solicitation without confirming the acceptance of solicitation with a customer in advance when executing a CFD transaction contract (CFD transaction contract as prescribed in Article 3, Item 3 of the “Rules Concerning CFD Transactions” (excluding OTC CFD transaction contracts prescribed in Item 4 of the same Article); the same shall apply hereinafter);
- (28) To continue the solicitation to the customer who received the initial solicitation but clearly indicates its intention not to execute the CFD contract (including its intention to no longer receive the solicitation);
- (29) To conclude a contract with knowing that the customer is a member of anti-social forces that is prescribed in Article 15 of the Rules Concerning the Enforcement of the Articles of Association when conducting sale and purchase and other transactions of securities with an Association Member or a Specified Business Member. However, this provision does not apply if such action is performed for the purpose of eliminating the anti-social forces from financial instruments transactions and financial instruments markets.

(Improper Acts)

Article 8 An Association Member must give guidance and exercise supervision so that its Employees will not engage in any act set forth in each of the following Items (hereinafter referred to as “Improper Act”):

- (1) In Sale and Purchase or Other Transactions of Securities, etc., to execute a customer’s order without confirming the issue, price, quantities, whether the order is limit order or market order or other details of the customer’s order (for a Specified Business Member, limited to a customer’s order related to the Specified Business, and for a Special Member, limited to a customer’s order related to the Registered Financial Institution Business; the same shall apply in Item 4 below);
- (2) To solicit a customer in a manner that will mislead him/her with respect to the nature of securities, or conditions of transactions;
- (3) In Sale and Purchase or Other Transactions of Securities, etc., to solicit a customer in a manner that will mislead him/her with respect to the (i) rise or fall in the price of securities or the amount of the option premium, (ii) rise or fall of the contracted value or actual value for the transaction set forth in Article 2, Paragraph 21, Item 2 of the FIEA (including foreign market Derivative transactions that are similar to such transactions) or the transaction set forth in Article 2, Paragraph 22, Item 2 of the FIEA, (iii) rise or fall of the financial index or the financial instruments price related to the transaction set forth in Article 2, Paragraph 21, Item 4 of the FIEA or Article 2, Paragraph 22, Item 5 of the FIEA, or 4 occurrence or non-occurrence of the reason set forth in Article 2, Paragraph 22, Item 6 (a) or (b); or
- (4) To make a mistake in the administration process by negligence with respect to the execution of a customer’s order related to the Sale and Purchase or Other Transactions of Securities, etc.

CHAPTER IV. DISCIPLINARY ACTION, ETC. AGAINST VIOLATORS OF LAWS AND REGULATIONS, ETC.

(Notification of Incidents)

Article 9 In cases where it is found that any person who is currently, or who had been, an Employee of an Association Member (hereinafter referred to as the “Employee, etc.”) has committed an act as prescribed in each Item of Article 7, Paragraph 3 hereof, in Article 5 of the Sales Representative Rules, or an act in violation of any law and regulation, etc., which the Employee is required to observe, or any Improper Act prescribed in the preceding Article (hereinafter referred to as “Incident”), the Association Member must immediately submit to the Association a Report on Incidents stating the details in the prescribed form, unless Improper Act prescribed in the preceding Article was committed by negligence.

2. The Association may, when deemed necessary regarding the details of Incidents in the Report on Incidents set forth in the preceding Paragraph, request the Association Member to submit further reports or materials to the Association.
3. The Association Member must comply with the request to submit reports or materials prescribed in the preceding Paragraph to the Association.

(Report of Development and Results of the Incidents)

Article 10 When the details of Incident prescribed in the preceding Paragraph (excluding the case where Improper Act prescribed in Article 8 hereof was committed by negligence) are found out, an Association Member must take an appropriate disciplinary action against the Employee, etc. in light of the nature of the Incident concerned and must submit, without delay, to the Association a Report of Development and Results of the Incidents stating the particulars of the case using the prescribed form.

2. An Association Member shall, when it recognizes that Incident prescribed in the preceding Paragraph is of a nature that impairs a great deal of public confidence in the Financial Instruments Business, append a note to that effect to a Report of Development and Results of the Incidents.
3. An Association Member must, where it has disciplined an Employee on the grounds of Incident, record the state of that disciplinary action and, when the Association deems it necessary, must report such situation of that disciplinary action in writing to the Association.

(Examination)

Article 11 In cases where the Association has received a Report of Development and Results of the Incidents pursuant to the provisions of the preceding Article, it shall examine the contents thereof.

2. The Association may, when deemed necessary in connection with the examination prescribed in preceding Paragraph, request the Association Member to give an explanation of the contents of the report or submit documentary evidence, etc.
3. The Association Member must comply with the request to give an explanation or submit documentary evidence, etc. prescribed in the preceding Paragraph to the Association.
4. The Association may conduct an examination prescribed in Paragraph 1 based on the Report of Development and Results of the Incidents that is prescribed in the preceding Article and other materials the Association deems appropriate (hereinafter referred to as the “Accredited Materials”).

(Treatment of Perpetrators of Inappropriate Acts)

Article 12 In cases where the Association finds, as a result of the examination pursuant to the provisions of the preceding Article, that the Employee, etc. has resigned, has been internally disciplined by the Association Member in a manner that is equivalent to discharge, or is an employee of an Association

Member in which registration prescribed in Article 29 or Article 33-2 of the FIEA was revoked, and that his/her act is deemed to be impairing a great deal of public confidence in the Financial Instruments Business, it is judged that such person shall be regarded as the perpetrator of an inappropriate act, and his/her qualifications as a sales representative as prescribed in the Sales Representative Rules, as well as Sales Manager and Internal Administrator prescribed in the Internal Administrator Rules shall be revoked. In the above case, a person who committed any action that could significantly impact on the trust granted to the Financial Instruments Business shall be regarded as a Class-1 perpetrator of an inappropriate act, and other persons are regarded as a Class-2 perpetrator of an inappropriate act, respectively.

2. An action to regard a person as the perpetrator of an inappropriate act pursuant to the preceding Paragraph shall commence when the judgment in the preceding Paragraph is made.

(Explanation Process)

Article 13 Before the Association commences to regard the Employee, etc. as the perpetrator of an inappropriate act, it shall conduct the explanation process.

2. When the Association conducts the explanation process prescribed in the preceding Paragraph, the Association shall notify it to the Employee, etc. who is to be involved in such explanation process and the Association Member who submitted a Report of Development and Results of the Incidents prescribed in Article 10 about the incident that caused him/her to be regarded as the perpetrator of an inappropriate act (hereinafter referred to as the “Submitting Association Member”).
3. In the explanation process after the examination prescribed in Article 11 based on the Accredited Materials prescribed in Paragraph 4 of the same Article, when the explanation process is conducted in a case where an employee is to be regarded as perpetrator of an inappropriate act, an Association Member set forth in each Item below shall be regarded as the Submitting Association Member depending on the type of Employee, etc. set forth below.
 - (1) If the Employee, etc. resigns or has been internally disciplined by an Association Member to which the Employee, etc. belonged when the incident happened:
The Association Member to which the Employee, etc. belonged when the incident happened;
 - (2) If the Employee, etc. belongs to an Association Member of which registration was revoked pursuant to Article 29 or Article 33-2 of the FIEA:
Such Association Member

(Notice of Determining a Person as the Perpetrator of an Inappropriate Act)

Article 13-2 When the Association determines that it regards/does not regard the Employee, etc. subject to the process prescribed in the preceding Article, Paragraph 1 as the perpetrator of an inappropriate act, it shall notify such determination to the Employee, etc. and the Submitting Association Member (if the Employee, etc. belongs to another Association Member due to resignation or other reasons, or belongs to a Financial Instruments Intermediary Service Provider whose Entrusting Financial Instruments Business Operator (as prescribed in Article 66-2, Paragraph 1, Item 4 of the FIEA) is not such Association Member, or becomes an Individual Financial Instruments Intermediary Service Provider, including such other Association Members; the same shall apply in the following Article 13-6, Paragraph 1).

(List of Perpetrators of Inappropriate Act)

Article 13-3 The Association shall be equipped with a list of persons who are determined by the Association to be regarded as perpetrators of inappropriate acts pursuant to the provision of Article 12,

Paragraph 1 (hereinafter referred to as the “List of Perpetrators of Inappropriate Acts” where name, gender, date of birth of such people, details of incident that caused such people to be regarded as perpetrators of inappropriate acts, category of Class-1 perpetrator of an inappropriate act or Class-2 perpetrator of an inappropriate act, the date when the determination is made to regard such people as perpetrators of inappropriate acts, and other matters that are deemed necessary.

(Filing of Complaint)

Article 13-4 The Employee, etc. or the Submitting Association Member who receives a notification prescribed in Article 13-2 may file a complaint to the Association within 14 days from the receipt of such notification to the Complaint Review Council that is prescribed in Article 76-3 of the Articles of Association.

2. If the notification prescribed in Article 13-2 does not reach the Employee, etc., and the Employee, etc. subsequently finds that he or she becomes the perpetrator of an inappropriate act, he or she may file a complaint within 30 days from the date when the same notification reaches the Submitting Association Member (if the notification does not reach the Submitting Association Member, 60 days from the date of sending such notification from the Association) to the Complaint Review Council.
3. Filing of complaint shall not hinder the Association to regard the Employee, etc. who is involved in such filing as a person as the perpetrator of an inappropriate act.

(Review of Complaints)

Article 13-5 The Complaint Review Council shall review whether the complaint filed pursuant to the preceding Article is reasonable or not (hereinafter referred to as the “Review of Complaints”), and notify the result of review to the Employee, etc. and the Submitting Association Member who are involved in such filing.

2. The Employee, etc. and the Submitting Association Member may not make an objection against the result of the Review of Complaints.

(Re-Review)

Article 13-6 If the Complaint Review Council accepts that the complaint is reasonable as a result of the review prescribed in the preceding Article, Paragraph 1, the Association shall re-review its decision to regard such Employee as the perpetrator of an inappropriate act mentioned in the filed complaint (hereinafter referred to as the “Re-review”), and notify the result to the Employee, etc. and the Submitting Association Member who are involved in such filing.

2. If the decision to regard the Employee as the perpetrator of an inappropriate act mentioned in the filed complaint is judged unreasonable as a result of the Re-review, the Association shall change or cancel the decision based on such result.
3. In the case of the preceding Paragraph, the Association shall change or erase the description of the Employee, etc. who is involved in the filed complaint in the list of perpetrators of inappropriate acts based on the results of the preceding Paragraph.
4. The Association shall provide an opportunity of re-explanation at the Re-review process.
5. If the Association provides an opportunity of re-explanation as prescribed in the preceding Paragraph, it shall determine the date of re-explanation, and notify the details to the Employee, etc. and the Submitting Association Member who are involved in such re-explanation process.

6. The Employee, etc. and the Submitting Association Member may not make an objection against the result of the Re-review.

(Application for Release)

Article 14 In cases where an Association Member finds it appropriate to release any of its employees who had been regarded as the perpetrators of inappropriate acts by the Association from such treatment because the employees have shown clear signs of remorse, or a new fact is found regarding the incident that caused such person to be regarded as a perpetrator of inappropriate act, or if there is a special reason, it may file with the Association an application for the release of such treatment.

2. When a person who is regarded as a perpetrator of inappropriate act finds a new fact regarding the incident that caused such person to be regarded as the perpetrator of an inappropriate act, or if there is a special reason, it may file with the Association an application for the release of treatment as a perpetrator of inappropriate act.

(Release and Notification)

Article 15 The Association shall, when receiving an application prescribed in the preceding Article, examine it and may determine to release the person related to the application, when deemed appropriate, from the treatment as the perpetrator of an inappropriate act.

2. The Association shall notify the result of the review of application prescribed in the preceding Paragraph to the Employee, etc., and the Submitting Association Member who are involved in such application, and the Association Member who conducted such application.
3. The Association shall, when releasing a person from the treatment as the perpetrator of inappropriate act prescribed in Paragraph 1, erase the description in regard to the person from the list on perpetrators of inappropriate acts.

(Delegation to Detailed Rules)

Article 15-2 Any necessary matters related to the process mentioned from Article 13 to the preceding Article shall be prescribed in the Detailed Rules.

CHAPTER V. MISCELLANEOUS PROVISIONS

(Report on the Number of Employees, Etc.)

Article 16 An Association Member must make a report, without delay, to the Association on the number of its Employees as of the end of June and December each year and on personnel changes in its Employees that have taken place during the six (6)-month period immediately after the personnel changes stated in the last report using the report on the number of Employees, etc. of the prescribed form.

(Mutatis Mutandis Application to Officers of the Association Member)

Article 17 The provisions in Article 3-2, Article 4, Paragraphs 2 and 3, Article 5, and from Article 7 to 16 shall apply *mutatis mutandis* to officers of an Association Member (for a foreign corporation, those who have a control power equivalent to an officer on such corporation regardless of its name or title; the same shall apply hereinafter), officers of a Specified Business Member who are in charge of the Specified Business, and officers of a Special Member who are in charge of the Registered Financial

Institution Business.

(Obtaining Consent using Electromagnetic Methods)

Article 18 In substitution for the written consent prescribed in Article 7, Paragraph 1 and, Paragraph 3, Item 4, Association Members may use methods employing electronic information processing systems or other information technologies to obtain consent. In such a case, the members shall be regarded as obtaining written consent.

SUPPLEMENTARY PROVISIONS [Omitted]

(Note) These Rules are based on the version in effect as of January 1, 2016.

<p>This translation is solely for the convenience of those interested therein, and accordingly all questions that may arise with regard to the meaning of the words or expressions herein shall be dealt with in accordance with the original Japanese text.</p>
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