

Compliance Letter No. 12

JSDA (Disciplinary Examination Department) 17 No. 273

March 15, 2006

To: Overall Internal Control Administrators

From: Hidemi Ijichi, Managing Director, Compliance Headquarters Manager,
Japan Securities Dealers Association

[Important] Breaches of Duty to Make Inquiries

With the introduction of the securities sales agent system since April 2004, the JSDA instituted "Regulations Concerning Securities Sales Agents (Fair Business Practice Regulations No. 16)," and has implemented them since April 1 of the same year. ("Instituting and Providing JSDA Regulations Concerning Establishment of Securities Sales Agent System" (JSDA (GA) 15 No. 234, JSDA WAN Document No. 200400371) membership notification dated March 17, 2004).

Article 15 of these Regulations specifies that securities sales agents must make inquiries with the JSDA about whether the person that is about to be registered as a registered sales representative has been disciplined by the JSDA during the preceding five years. Recently, however, we have come across instances of the neglect of these inquiries by members (breach of the duty to make inquiries).

In addition to breaches of the duty to make inquiries concerning securities sales agents, there were quite a few breaches of the duty to make inquiries on the hiring of Member employees (which also applies to executives. When Special Members hire employees to engage in registration and/or authorization securities business and/or when they plan to have those employees engage in registration and/or authorization securities business. Henceforth, entitled "on the hiring of Member employees, etc.")).

Given circumstances such as these, we have summarized instances of such breaches as shown in the Exhibit. We therefore request that each Association Member Firm uses these instances as a reference and endeavors to provide an internal control system by, for example, establishing a framework for preventing contraventions in advance.

Please also note that if you find the same types of cases as those listed in this notification, you are required to submit a Company Incident Report to the JSDA as breaches of JSDA Regulations.

Contacts points regarding this matter:

Disciplinary Examination Department (Telephone: 03-3667-8475)

Special Member Firms Department (Telephone: 03-3667-8013)