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Overview of Regulations on Settlement Cards in Japan

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The Japanese regulations on payment cards are very complicated.

In this newsletter, I will make a brief overview of the regulations on payment cards in Japan.

1 Basic Framework in Japan

To understand the Japanese regulations on payment cards, one must first understand the concept of **Kawase Torihiki**.

Kawase Torihiki is basically a wire transfer transaction or equivalent money transfer service. It is similar to the concept of money transfer businesses in the US or payment institution under the EU Payment Services Directive, but it does not include credit card transactions and it does not include most of the e-money services provided in Japan.

If a transaction falls under Kawase Torihiki, the business entity conducting Kawase Torihiki would require a banking license or Funds Transfer Service Provider(“FTSP”) registration, so the distinction is very important.

| Kawase Torihiki | Not Kawase Torihiki |
|--|--|
| Bank Cash Card Bank Debit Card Money Services Business Card | Post Pay Credit Card Charge Card Pre Pay Prepaid Payment Instrument Card (*) Virtual Currency (*) |

- * There are cases that transactions by issuers and/or traders of prepaid cards or virtual currencies may fall under Kawase Torihiki, so most of the Japanese entities take various measures to avoid falling under Kawase Torihiki. The concept of Kawase Torihiki is very complicated, so if you would like to know more in detail, please contact us.

2 Credit Cards and Charge Card

(1) What are Credit Cards and Charge Cards ?

Credit cards and charge cards are both post pay cards.

Both are payment cards issued to users (or cardholders) to enable the cardholder to pay a merchant for goods and services, based on the cardholder's promise to the card issuer to pay them for the amounts so paid plus other agreed charges.

Charge card is different from credit cards in that each month's spending is expected to be paid monthly¹. Thus, charge card functions are rather called "monthly clear" function in Japan. The monthly spending is expected to be paid every month and this makes the credit balance to be cleared every month.

(2) Are credit cards and charge cards popular in Japan ?

Yes. Very popular. Most of the online B2C transactions are settled through credit cards / charge cards. They are a lot more popular in Japan than debit cards and pre-paid cards are in relation with online transactions.

You may wonder why credit cards are more popular than debit cards and prepaid cards. There are probably two main factors. The first factor is that the reward programs or loyalty programs for credit cards are generally more advantageous to the users than those for debit card and prepaid cards. The second factor is that the number of merchants accepting credit cards are said to be greater than the number for debit card and prepaid cards.

By the way, Japanese credit card companies do not issue charge card alone. Charge Card and Credit Card are issued together as one card with both functions.

¹ In the Installment Sales Act which regulates credit cards and charge cards, the spending of Charge Cards need to be payable within two months from the purchase of the goods or services using such card. For example, credit card purchase made on Jan 1 should be payable on or before February 28.

(3) Who issues Credit Cards and Charge Cards in Japan

Banks and non-bank financial institutions issue credit cards and charge cards in Japan.

Due to historical reasons and for other reasons, majority of the credit cards are issued by non-bank financial institutions and not by banks. However, most of the issuers belong to a cooperate group having a bank in it.

(4) Who acquires merchants for credit card and charge card

The answer is the same as (3).

Some acquirers contract with payment services providers ("PSP"s or "*Kessai-Daikou*") who would acquire sub-merchants. Using PSPs enables financial institutions, including those abroad, to enhance their acquiring abilities.

(5) Registration Requirements

a. Issuing

In order to issue credit cards, registration as an issuer ("Issuer Registration") with the Japanese government under Japan's Installment Sales Act ("JISA") is basically required².

Even if, a financial institution has a bank license, Issuer Registration is required nonetheless.

b. Acquiring

A bill to amend the JISA has been passed on December 2, 2016 and has come to force on June 1, 2018.

The amended JISA basically requires acquirers to register as an acquirer under the JISA ("**Acquirer Registration**").

Even if a financial institution has a bank license, Acquirer Registration is required nonetheless.

c. Sub-Acquiring

² There are some exemptions under the JISA (Article 35-3-60).

Acquirer - [Merchant Agreement] - Sub Acquirer - [Sub Merchant Agreement] - Merchant

The amended JISA basically requires sub-acquirers to get an Acquirer Registration.

(a) Internet Mall

For example, if an internet shopping mall platform operator enables C2C transactions to be settled through credit cards, such platform operator, etc., may need to discuss acquiring an Acquirer Registration.

Considering this issue, METI has shown an interpretation that if the sub acquirer is ultimately deciding whether to enter into merchant agreement for credit card settlement with the merchant and whether to terminate such contract, then such sub acquirer shall obtain an Acquirer Registration. And METI says that not only the wording of the contracts shall be taken into consideration, but also the substance and actual operation shall be taken into consideration.

In many other countries, the sub-acquirer will require MSB registration, but in Japan, sub- acquirers often get away with and Acquirer Registration FTSP registration.

(b) Wallet Services and Other Similar Payment Services

I am often asked by business entities whether acquiring of wallet services and other similar payment services would require Acquirer Registration.

Pertaining to services like Alipay, where users register debit cards and credit cards, I have made an inquiry to METI and METI's answer was that even if the settlement ratio of credit card may be low and even if the users may be limited to Chinese residents, as long as any business entity is acquiring Japanese resident (including corporations) as merchants, and as long as the final decision authority is delegated to such entity by the respective acquirer, such entity would require Acquirer Registration.

If such entity insists that the final decision authority is not delegated and is withheld by the acquirer, then the respective acquirer would need Acquirer Registration in Japan.

If the acquirer and sub-acquirers are not sure as to which side has the final decision making authority to accept or refuse merchant, then it may be safer for both sides to

acquire Acquirer Registration.

By the way, when we say sub-acquirers, it is different from most payment service providers (PSPs) overseas without money service business license (US) or payment institution authorization (EU), because Japanese sub-acquirers receive funds from acquirer and then transmit such funds to the respective merchants.

d. Merchants

No registration is required for being a credit card merchant.

However, merchants are subject to certain disclosure obligations on each credit card transactions (Item 4, Article 35-2-3 of JISA).

In addition, under the amended JISA, the merchants will be required to adopt appropriate measures to ensure security of credit card numbers and to prevent credit card frauds.

METI is explaining to credit card companies that if the merchants comply with the "Implementation Plan For Enhancement of Security Regarding Credit Card Transactions" (hereinafter, "**Implementation Plan**") which is publicized by the Credit Transaction Security Committee of Japan, then that will suffice.

The 2016 Implementation Plan requires merchants to implement (i) PCI DSS measures by 2018 for EC merchants and by 2020 for other merchants, (ii) IC card acceptance measures by 2020 and (iii) such other measures to avoid security breakage and ID theft; provided however that merchants who do not process or store credit card numbers, for example by using registered Sub Acquirers and having them process credit card numbers, will not be obligated to comply with PCI DSS.

The Implementation Plan has been updated yearly taking into consideration the figures of credit card number leakage incidents and such.

(6) Will registration be Necessary for the following cases ?

a. A foreign Bank issues credit cards in Japan

Issuer Registration under the JISA is basically necessary.

b. A bank in Singapore issues a credit card to a Singapore resident, but such

resident immigrates to Japan becoming a Japanese resident, and the Singapore bank sends a credit card to such user for the renewed term

Issuer Registration under the JISA is basically necessary.

c. A Foreign Bank conducts acquiring activities for credit cards in Japan.

Under the amended JISA, Acquirer Registration will be required.

Even if a foreign financial institution does not have any branch office nor permanent establishment in Japan, if such financial institution acquires residents of Japan, including Japanese corporations, as merchant for credit card transactions, Acquirer Registration would be basically required (*). Of course, acquiring overseas branches of Japanese corporations alone would not require Acquirer Registration (unless such acquiring is interpreted as abusive evasion of law).

* If a foreign bank (or MSB/PI) acquires a sub-acquirer (which is somewhat similar to independent sales organization) located in Japan and delegates the final decision authority and responsibility of accepting merchant or not to such sub-acquirer, it is interpreted by the Japanese government that such foreign bank, would not need an Acquirer Registration in Japan. However, for a foreign bank to delegate final decision of accepting or refusing merchant is a difficult task for overseas banks to overcome because most financial institutions owe anti-money laundering obligations by themselves and may be subject to sanctions if such measures are not appropriately conducted. Anti-money laundering regulations in Japan do not obligate acquirers nor sub-acquirers to conduct customer due diligence of merchants nor representatives, so the customer due diligence measures of Japanese sub-acquirers may not fulfill global standards. They do not owe reporting obligations of suspicious transactions either.

Also, in order for a foreign bank to have the sub-acquirer to make the acceptance and refusal decisions properly, such foreign bank may need to provide the sub-acquirer with necessary information, including but not limited to black lists, which may be burdensome.

d. A Foreign Bank acquires, by itself or through PSPs, a merchant outlet located in Japan

There are uncertainties left on the extent of cases that would be judged as "acquiring activity in Japan", but it is generally considered that entering into a

merchant agreement with a Japanese corporation or other residents of Japan, directly or indirectly through a PSP, will likely be judged as an acquiring activity in Japan. “Final decision authority issue” as described previously in Section 2(4)c. is an issue to discuss.

On the other hand, in cases where, for example, a US bank acquires a merchant outlet or branch located in US of a Japanese cooperation, Acquirer Registration under the JISA will not be required.

(7) Is there any other license or other registration requirements that a financial institution should take into consideration

Most of the credit cards issued in Japan have (i) loan function, in addition to (ii) the shopping function.

| | Loan Function | Credit Card / Charge Card Function |
|----------|-----------------------------------|------------------------------------|
| Bank | Banking Act | Installment Sales Act (JISA) |
| Non-Bank | Money Lending Business Act (MLBA) | Installment Sales Act (JISA) |

The loan function is regulated by the Banking Act or the Money Lending Business Act ("MLBA").

Thus, if a non-bank financial institution wants to provide loan function, it would need a MLBA registration.

(8) Please explain the overall regulation under the JISA

(a) Issuer

The main obligations of issuers are as follows:

- (i) required to ensure compliance through internal control (JISA Article 30-2, Item 1, Paragraph 10, Article 33-5);
- (ii) disclosure requirements in relation with the cardholder (JISA Article 30-2-3);
- (iii) obligation to make investigations on the financial conditions of card applicant who is a consumer³ (JISA Article 30-2);
- (iv) obligation to use card bureaus for the investigations provided for in (iii) above (JISA Article 30-2, Item 3).;
- (v) statutory limit on the maximum amount of credit limit that an issuer can set in

³ Here, "consumer" means that (x) individual acting as a business owner and (b) legal entities are not included.

- relation with a consumer card holders (JISA Article 30-2 and Article 30-2-2);
- (vi) obligation to ensure security of the credit card numbers (Article 35-16);
- (vii) advertisement regulation (Article 30, Item 3); and
- (viii) obligation to not collect the remaining outstanding credit balance from a consumer, in cases where such consumer refuses to pay such outstanding amount insisting a legitimate defense that such consumer has against the Merchant (Article 30-4).

Please note that except for (vi) above, the above obligations (i) through (viii) will not be applied in relation to Monthly Clear Transactions.

Also, under the Amended JISA, Issuers will basically need to comply with the Implementation Plan. That means compliance with PCI DSS, issuance of IC Cards and such is expected.

(b) Acquirer

The main obligations of acquirers under the amended JISA will be as follows:

- (i) required to ensure compliance through internal control;
- (ii) required to make investigations on the credit card security measures and credit card fraud protection measures of merchants;
- (iii) required to refuse accepting merchants who have insufficient security measures or credit card fraud protection measures;
- (iv) obligation to ensure security of the credit card numbers; and
- (v) required to file to "Japan Credit Association" the name and such of merchants regarding which the acquirer has recognized as having conducted improper solicitation and such in relation with the cardholder.

(9) What other laws and regulations should a financial institution need to worry about

| | |
|--|--|
| Advertisements and Award Programs | <ul style="list-style-type: none"> - Act against Unjustifiable Premiums and Misleading Representations - Act on Specified Commercial Transaction - Act on Regulation of Transmission of Specified Electronic Mail |
| Anti-Money Laundering (Know Your Customer Regulation etc.) | Act on Prevention of Transfer of Criminal Proceeds |

| | |
|--|---|
| Antitrust | Act on Prohibition of Private Monopolization and Maintenance of Fair Trade |
| Consumer Protection (Ensuring Fairness of the terms and such) | Consumer Contract Act |
| Interest Rate | - Interest Rate Restriction Act - Act Regulating the Receipt of Contributions, the Receipt of Deposits, and Interest Rates |
| Loan | - Banking Act - MLBA |
| Personally Identifiable Information | Act on the Protection of Personal Information |

Also, there are rules and guidelines by the government (METI) and by Japan Consumer Credit Association which is a self-regulatory organization of the industry.

3 Bank Cash Card and Bank Debit Card

(1) Money Transfer

In Japan, only licensed banks and registered Fund Transfer Service Provider ("FTSP") can engage in the business of "*Kawase Torihiki*", which is equivalent to money transfer business (Banking Act Article 4, Item 1 and Payment Services Act Article 37)⁴. So, it can be said that FTSP is equivalent to **money services businesses** in the US, although there are many differences.

(2) What are Bank Cash Cards and Debit Cards

Bank cash cards are cards that are issued by banks to accept deposits, and it can be used by cardholders to (i) withdraw money deposited from bank ATMs and (ii) to send money through wire transfer to other bank accounts. On the other hand, bank cash cards may not be used to pay for purchasing goods at merchant outlets. It may not have a debit card function.

Bank debit cards are cards that can be used to purchase goods and services at a merchant outlet.

⁴ There are few exceptions by special laws. Also, credit card transactions, charge card transactions and certain other transactions are not regarded as "*Kawase-Torihiki*".

In Japan, there are mainly two types of debit cards, one is "J-Debit", which is operated by Japan Debit Card Promotion Association and the other is the so-called "Brand Debit Card", which is operated by international card networks like Visa, Mastercard and JCB⁵.

| | Bank Cash Card | Bank Debit Card |
|--|------------------------------|-----------------|
| Withdraw deposited money | Yes | Yes |
| Send money through Wire Transfer | Yes | Yes |
| Purchase Goods and Services at Merchant Outlet | No (meaning not necessarily) | Yes |

(3) Who can issue Bank Cash Cards

Only banks with banking license under the Japan's Banking Act ("**JBA**") can issue Bank Cash Cards. This is because only banks can accept deposits.

A branch office in Japan of a foreign bank can also apply for a license under the JBA.

(4) Who can issue Bank Debit Card

Only Banks can⁶.

(5) Who can acquirer merchants for Bank Debit Card

The interpretation of the government is not clear.

If it could be said that bank debit card transaction are like wire transfer (or it falls under Kawase-Torihiki), then only banks or FTSPs may engage in the acquiring business of debit cards.

However, it seems that the FSA is not regarding debit card transactions as Kawase-Torihiki. Many Japanese non-bank financial institutions lacking FTSP registration engaging in the acquiring of debit cards.

⁵ In Japan, we call international card networks like Visa, MasterCard, and JCB as "Brand" company, so it is generally called "Brand Debit Card".

⁶ There are some discussions about the possibility of a non-bank financial institution issuing a debit card, but I do not agree with such argument insisting that a non-bank financial institution may issue a debit card that would directly deduct or debit funds from user's bank account.

Such interpretation seems to be not in line with the global anti-money laundering regulations or the FATF Recommendations, but that is the situation in Japan.

(6) Which regulations should one take into consideration pertaining to Bank Cash Card and Bank Debit Card

Basically, the JBA. The following regulations should also be taken into consideration.

| | |
|---|---|
| Advertisements and Award Programs | - Act against Unjustifiable Premiums and Misleading Representations - Act on Regulation of Transmission of Specified Electronic Mail |
| Anti-Money Laundering (Know Your Customer Regulation etc) | Act on Prevention of Transfer of Criminal Proceeds |
| Antitrust | Act on Prohibition of Private Monopolization and Maintenance of Fair Trade |
| Cross Border Money Transfer or Money Transfer between resident users and non-resident users | Foreign Exchange and Foreign Trade Control Act |
| Cross Border Payments | Act on Submission of Statement of Overseas Money Transfers for Purpose of Securing Proper Domestic Taxation (*) * Requires collection of Social Security and Tax Number of the users and such. |
| Interest Rate | - Interest Rate Restriction Act |
| Loan (e.g. through overdraft) | - Banking Act |
| Personally Identifiable Information | Act on the Protection of Personal Information |
| Social Security and Tax Number (the so-called "My Number") | Act on the Use of Numbers to Identify a Specific Individual in the Administrative Procedure |

Also, there are rules and guidelines by the government (FSA).

4 Money Service Business Card

(1) What are Money Service Business Card

Money Services Business Cards are cards that are issued by FTSPs to their users.

Most of the FTSPs have their users create an account and accept funds from the users in advance.

Some Japanese non-bank financial institutions issue Visa Debit Card as FTSP.

(2) Which Act Regulates Money Services Business Card

Japan's Payment Services Act ("**JPSA**") regulates Money Services Business.

(3) What are the main obligations of FTSPs under JPSA

The main obligations under JPSA are as follows:

- (i) required to obtain registration as FTSP (JPSA Article 37);
- (ii) the maximum transaction amount of a money transfer transaction through FTSP is limited to 1 million yen per transaction (JPSA Article 2, Item 2);
- (iii) required to make a security deposit to the government or to obtain an assurance by banks or to take other equivalent measures (JPSA Article 47);
- (iv) required to take necessary measures to ensure proper and secure handling of information regarding the Funds Transfer Service (JPSA Article 49);
- (v) required to implement measures to ensure proper and secure operation of the Funds Transfer Service by outsourcing companies in case where the FTSP uses such outsourcing companies (JPSA Article 50);
- (vi) required to provide or disclose certain information items provided for under the JPSA (JPSA Article 51 and Cabinet Ordinance Article 29);
- (vii) required to provide receipts to each user upon acceptance of funds from each such user (JPSA Article 51 and Cabinet Ordinance Article 30); and
- (viii) required to maintain proper records pertaining to the Fund Transfer Business (JPSA Article 52).

(4) What other laws and regulations should a FTSP need to worry about

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| <p>Advertisements and award programs</p> | <ul style="list-style-type: none"> - Act against Unjustifiable Premiums and Misleading Representations - Act on Specified Commercial Transaction - Act on Regulation of Transmission of Specified Electronic Mail |
| <p>JBA</p> | <p>One needs to be careful that the funds that it</p> |

| | |
|---|---|
| | receives from user will not be interpreted as deposit, because if a FTSP accepts deposit, that will be illegal. |
| Personally Identifiable Information | Act on the Protection of Personal Information |
| Loan | - Banking Act - MLBA |
| Interest Rate | - Interest Rate Restriction Act - Act Regulating the Receipt of Contributions, the Receipt of Deposits, and Interest Rates |
| Antitrust | Act on Prohibition of Private Monopolization and Maintenance of Fair Trade |
| Anti-Money Laundering (Know Your Customer Regulation etc.) | Act on Prevention of Transfer of Criminal Proceeds |
| Cross Border Money Transfer or Money Transfer between resident users and non-resident users | Foreign Exchange and Foreign Trade Control Act |
| Cross Border Payments | Act on Submission of Statement of Overseas Money Transfers for Purpose of Securing Proper Domestic Taxation |
| Social Security and Tax Number (the so-called "My Number") | Act on the Use of Numbers to Identify a Specific Individual in the Administrative Procedure |
| Consumer Protection (Ensuring Fairness of the terms and such) | Consumer Contract Act |

Also, there are rules and guidelines by the government (FSA) and by the Japan Payment Service Association, which is a self-regulatory organization of the industry.

(5) What is the main advantage of MSB Cards compared to E-money Cards

It can be used to withdraw funds overseas. E-Money Cards cannot be used in such way.

5 Prepaid Payment Instrument Card (Brand Prepaid Card, E-money and Gift Card)

(1) What is Prepaid Payment Instrument Card?

“**Prepaid Payment Instrument**” is a prepaid value issued under the Japanese Payment Services Act.

The prepaid payment instrument card may only be used to purchase goods and services and cannot be redeemed except for statutory exceptions.

One type of an Prepaid Payment Instrument Card is where global digital content platform service providers (e.g. Apple) or Japanese online game platform service providers issuing and selling e-money cards or gift cards through convenience stores.

Users would purchase it because (i) it is easy to buy, (ii) no Customer Identification processes are required(*), (iii) less risk of un- authorised use compared to credit card transactions, (iv) users may be able to use the e-money anonymously and (v) users may give the e-money to his friend or family as gifts.

* This may change in the future because not imposing AML obligation at all to e-money seems to be violating the FATF Recommendations.

The other type of Prepaid Payment Instrument Card is Brand Prepaid Cards. Some Japanese financial institutions issue Visa Prepaid Cards and operate such business with E-Money registration.

As long as the Visa Prepaid Cards cannot be used at ATMs to withdraw money, in Japan or overseas, payment transactions through such cards will not be basically regarded as *Kawase Torihiki* and would not require FTSP registration in Japan.

(2) Who can issue Prepaid Payment Instrument Cards

Entities holding a registration for Prepaid Payment Instrument for Third Parties can⁷.

Banks can also acquire such registration. For example, Bank of Mitsubishi UFJ,

⁷ If the Prepaid Payment Instrument can only be used to purchase goods and services provided by the Issuer, such Prepaid Payment Instruments are called Prepaid Instruments for Own Business and if the Prepaid Payment Instrument can be used to purchase goods and services provided by entities other than the Issuer, then they are called Prepaid Instruments for Third Parties. The two types are regulated differently, but, since most of the prepaid cards commonly used are the latter, I would only comment on the latter in this newsletter.

Sumitomo Mitsui Banking Corporation, AEON Bank, and Rakuten Bank have such registration.

(3) What are the advantages of Prepaid Payment Instrument Cards compared to MSB Cards

The regulations are much lighter compared to MSB Cards.

For example, for non-bank financial institutions, anti-money laundering related regulations are basically not applied.

(4) Why are they regulated lighter than MSB Cards

Prepaid Payment Instrument Cards cannot be basically redeemed.

So, for example, in case an user purchase a Prepaid Payment Instrument Card at a convenience store and send it to his/her friend, such friend will not be able to redeem the e-money to get cash. Thus, the risk for the e-money to be used for money laundering purpose is deemed to be lower than MSB Card and thus is regulated lighter than MSB Cards.

(5) What are the main regulations of Prepaid Payment Instrument Issuers

The main obligations are as follows:

- (i) required to obtain registration (JPSA Article 7);
- (ii) required to display or provide certain information pertaining to the Prepaid Payment Instrument (JPSA Article 13);
- (iii) required to make a security deposit to the government or to obtain an assurance by banks or to take other equivalent measures (JPSA Article 14) except for cases where the issuer is a bank;
- (iv) required to take necessary measures to ensure proper and secure handling of information regarding the Funds Transfer Service (JPSA Article 21); and
- (v) required to maintain proper records pertaining to the Fund Transfer Business (JPSA Article 22).

(6) What other regulations should an Prepaid Payment Instrument Issuer be careful of

The Prepaid Payment Instrument Issuer will have to be careful of the following regulations.

| | |
|--------------------------|--|
| Advertisements and Award | - Act against Unjustifiable Premiums and |
|--------------------------|--|

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|--|--|
| Programs | Misleading Representations - Act on Specified Commercial Transaction - Act on Regulation of Transmission of Specified Electronic Mail |
| Antitrust | Act on Prohibition of Private Monopolization and Maintenance of Fair Trade |
| Consumer Protection (Ensuring Fairness of the terms and such) | Consumer Contract Act |
| Kawase Torihiki | JBA and JPSA * * One must be careful so that the payment transactions will not fall under Kawase Torihiki or else banking license or MSB registration will be required. |
| Personally Identifiable Information | Act on the Protection of Personal Information |

Also, there are rules and guidelines by the government (FSA) and by the Japan Payment Service Association which is a self-regulatory organization of the industry.

6 Virtual Currencies

(1) How are Virtual Currencies regulated.

An amendment bill to the JPSA has been passed in the Japanese Congress on May 25, 2016 and came into effect during April 2017. Under the amended JPSA, Virtual Currencies Traders or virtual currency exchanges need to be registered under the JPSA.

Also, another bill to reform the regulations on Virtual Currencies has been proposed to the Japanese congress on March 15, 2019 (“2019 Bill”) and is expected to be passed this year.

(2) What are virtual currencies?

Virtual Currencies are defined as either of the following.

- (i) a proprietary value electronically recorded on an electronic device or otherwise which can be transferred to a third party using an electronic system and which can be used as a mean to purchase goods or services or to borrow goods from many and unspecified persons.
- (ii) a proprietary value electronically recorded that can be exchanged with (i)

interchangeably (JPSA Article 2, Item 5)

Please note that if the proprietary value as stated in (i) is dependent on value of a certain fiat currency, then it would not be a Virtual Currency under the JPSA.

Thus, gift cards and prepaid cards usually do not fall under Virtual Currency.

(3) Who will be required to register

Any person engaging in the Virtual Currency Business (or "**Virtual Currency Traders**") will need to be registered (JPSA Article 63-2).

Here, the Virtual Currency Business means engaging in either of the following items.

- (i) sales and purchase of Virtual Currency, or the exchange of a Virtual Currency with another type of Virtual Currency;
- (ii) intermediary, brokerage, or agent service of (i); or
- (iii) administering money or Virtual Currency for its users of the service listed in (i) or (ii) that it provides to such users.

If the 2019 Bill is passed, the following category will be added.

- (iv) administering Virtual Currency on behalf of someone else.

(4) What are the main obligations of Virtual Currency Traders

The main obligations of Virtual Currency Traders are as follows:

- (i) required to obtain registration as Virtual Currency Traders under JPSA;
- (ii) required to separately administer the Virtual Currency that it holds on its own account with those that it holds for its users (JPSA Article 63-11, Item 1);
- (iii) required to periodically undergo an audit by a certified auditor or accounting firm (JPSA Article 63-11, Item 2);
- (iv) required to take necessary measures to ensure proper and secure handling of information regarding the Funds Transfer Service (JPSA Article 63-8);
- (v) required to implement measures to ensure proper and secure operation of the Virtual Currency Business by outsourcing companies in case where the FTSP uses such outsourcing companies (JPSA Article 63-9);
- (vi) required to provide or disclose certain information items provided for under the JPSA (JPSA Article 63-10);
- (vii) required to display that the Virtual Currency is not a currency of Japan nor of other country (JPSA Enforcement Ordinance Article 17);
- (viii) required to establish an internal control system to implement necessary

measures to protect the users and to ensure appropriate operation of the Virtual Currency Business (JPSA Enforcement Ordinance Article 18 and 19); and

- (ix) required to maintain proper records pertaining to the Fund Transfer Business (JPSA Article 63-13).

(5) What other laws and regulations should Virtual Currency Trader be careful of.

Virtual Currency Trader should take into consideration the Kawase Torihiki regulation or else it would require a banking license or MSB registration. Also, Virtual Currency Traders are subject to anti-money laundering regulations, so this needs to be dealt with.

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|---|--|
| Advertisements and award programs | <ul style="list-style-type: none"> - Act against Unjustifiable Premiums and Misleading Representations - Act on Specified Commercial Transaction - Act on Regulation of Transmission of Specified Electronic Mail |
| Personally Identifiable Information | Act on the Protection of Personal Information |
| Antitrust | Act on Prohibition of Private Monopolization and Maintenance of Fair Trade |
| Anti-Money Laundering (Know Your Customer Regulation etc.) | Act on Prevention of Transfer of Criminal Proceeds |
| Kawase Torihiki | <p>JBA and JPSA</p> <p>* One must be careful so that the payment transactions will not fall under Kawase Torihiki or else banking license or MSB registration will be required.</p> |
| Consumer Protection (Ensuring Fairness of the terms and such) | Consumer Contract Act |

(6) What changes to the JPSA does the 2019 Bill propose?

The main changes that the 2019 Bill will realize are:

- (i) the term Virtual Currency will be replaced by Crypto Asset

(ii) fraudulent advertisement and other acts will be prohibited (JPSA Article 63-9-3); and

(iii) measures to secure value of Crypto Assets of customer will be required (JPSA Article 63-11-2).

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