

Overview of Regulations on Payment Services in Japan

The Japanese regulations on payment services are very complicated.

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

1 Basic Framework in Japan

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

Kawase Torihiki is a transaction in which funds are moved without transporting cash, and, at the risk of oversimplifying, it is a remittance. The Supreme Court has defined Kawase Torihiki as "accepting, or accepting and carrying out, a request from a customer to move funds by using a scheme that moves funds between parties at a distance without directly transporting cash" (Supreme Court, Third Petty Bench, Decision of March 12, 2001, Keishu Vol. 55 No. 2, p. 97). Sending money by registered cash mail, which moves the cash itself, does not fall under Kawase Torihiki.

Kawase Torihiki 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 (Banking Act Article 4, Item 1 and Payment Services Act Article 37), so the distinction is very important.

(1) What falls under Kawase Torihiki and what does not

- Kawase Torihiki: Bank Cash Card / Bank Debit Card / Money Services Business Card
- Not Kawase Torihiki
- Post Pay: Credit Card / Charge Card
- Pre Pay: Prepaid Payment Instrument Card (*) / Crypto Asset (*) / Electronic Payment Instrument (*)

* There are cases that transactions by issuers and/or traders of prepaid cards, crypto assets or electronic payment instruments may fall under Kawase Torihiki, so most of the Japanese entities take various measures to avoid falling under Kawase Torihiki. An electronic payment instrument issued by an FTSP is regulated as Kawase Torihiki in the first place. The concept of Kawase Torihiki is very complicated, so if you would like to know more in detail, please contact us.

(2) How broadly should the Supreme Court's "scheme" requirement be read

If the Supreme Court's "scheme" requirement is read broadly, a wide range of transactions could all fall under Kawase Torihiki: (i) collection of payments at convenience stores, (ii) cash on delivery handled by parcel delivery companies, (iii) payment or receipt by an attorney on behalf of a client, (iv) receipt of rent by a real estate broker, (v) receipt of travel fees by a travel agent, (vi) credit card transactions, and (vii) the provision of settlement functions by internet mall operators. Indeed, Yasufumi Takahashi, *Detailed Explanation of the Legal Framework for Payment Services*, argues on the premise that both convenience store collection and cash on delivery fall under Kawase Torihiki (pp. 157-174).

On the other hand, there is a view that reads the "scheme" requirement more narrowly (the chairperson's memorandum of the Study Group on Payment Instruments Promoting Electronic Distribution, commissioned by METI, "Interim Summary of Issues Concerning Payment in Commercial Transactions", September 11, 2008; the report of the Subcommittee on Payment in Commercial Transactions of the Industrial Finance Committee and the

Distribution Committee of the Industrial Structure Council, "On the Rules Concerning Payment Services in Commercial Transactions", December 26, 2008). This view places weight on the fact that, under the Banking Act, collection services are treated as ancillary business, being "the receipt of money on behalf of the national government, local governments, companies and others and other handling of money-related affairs" (Banking Act Article 10, Paragraph 2, Item 9), and are thus distinguished from Kawase Torihiki, which is a core business reserved to banks, and on consistency with the use of the term Kawase Torihiki in the Act on Prevention of Transfer of Criminal Proceeds. It also places weight on the fact that bills of exchange, from which the term Kawase Torihiki derives, are constructed as legal relationships independent of the underlying transaction (abstractness), and argues that a payment for which abstractness is denied and which can be evaluated as integral to the commercial transaction should not fall under Kawase Torihiki. The judgment of the Tokyo High Court of July 19, 2013 reads the scope of Kawase Torihiki even more narrowly.

(3) Expansion of the scope of Kawase Torihiki: collection services brought within

By the 2020 amendment, Article 2-2 of the Payment Services Act ("JPSA") was newly introduced, making it explicit that certain collection services fall under Kawase Torihiki.

The Article provides that an act of moving funds from an obligor to a payee, by receiving funds as performance from the obligor on the basis of entrustment by the payee, assignment of the monetary claim by the payee or other similar methods, and delivering those funds to the payee (excluding an act of receiving cash and delivering that cash), falls under Kawase Torihiki if it falls under either of the following.

- Item 1: an act satisfying the requirement that the payee is an individual (excluding a case where the payee acts as or for a business) and other requirements specified by Cabinet Office Ordinance. So-called bill-splitting applications are contemplated.
- Item 2: an act of moving funds from Japan to a foreign country, or from a foreign country to Japan (excluding those specified by Cabinet Office Ordinance as unlikely to result in insufficient protection of users). This is cross-border collection service.

As for cross-border collection services, on the wording of Item 2, the act may fall under Kawase Torihiki even where the payee is a business entity. Cross-border e-commerce schemes, collection of payments for overseas accommodation booking sites, and intermediation of payments to freelancers abroad all require examination of whether this Article applies.

2 Credit Cards and Charge Cards

(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 monthly (脚注 1). 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.

Note 1: In the Installment Sales Act ("JISA"), which regulates credit cards and charge cards, the spending of Charge Cards needs to be payable within two months from the purchase of the goods or services using such card (the "two-month deferred payment purchase intermediation" defined in JISA Article 35-16, Paragraph 2). For example, credit card purchase made on Jan 1 should be payable on or before February 28.

(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.

(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 corporate 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) Is registration required?

a Issuing

In order to issue credit cards, registration as an issuer ("Issuer Registration") with the Japanese government under JISA is basically required (JISA Article 31, 脚注 2).

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

Note 2: There are some exemptions under the JISA (Article 35-3-60). For example, comprehensive credit purchase intermediation relating to a contract concluded for or as a business (business-to-business transactions), that provided to a person located outside Japan, and that relating to a contract for the sale of real estate.

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 JISA basically requires acquirers to register as an acquirer, that is, as a business operator concluding contracts for the handling of credit card numbers ("Acquirer Registration") (JISA Article 35-17-2).

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

c Sub-Acquiring

Acquirer — [Merchant Agreement] — Sub Acquirer — [Sub Merchant Agreement] — Merchant

The 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 an Acquirer Registration and without 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 transaction (JISA Article 30-2-3, Paragraph 5).

In addition, under the JISA, merchants are required to adopt appropriate measures to ensure security of credit card numbers (JISA Article 35-16, Paragraph 1, Item 2) and to prevent improper use of credit card numbers by users (JISA Article 35-17-15).

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 required 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.

In addition, the "business operators handling credit card numbers" who owe the duty to ensure appropriate management of credit card numbers are not limited to issuers and merchants. They include intermediary payment agents (JISA Article 35-16, Paragraph 1, Items 3 and 4), business operators that receive credit card numbers from users, link them to settlement information and provide such settlement information to the users (Item 5), business operators entrusted by those in Item 5 that manage credit card numbers in a state where they can be identified by the linked settlement information (Item 6), and business operators handling a large volume of credit card numbers

as specified by METI ordinance (Item 7). Wallet services and card-on-file services involving tokenization of card numbers need to examine Items 5 and 6. Further, a business operator handling credit card numbers must take necessary measures to ensure appropriate management of the credit card numbers handled by its contractors (JISA Article 35-16, Paragraph 3).

(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 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. The "final decision authority issue" as described previously in Section 2(5)c(b) 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 corporation, 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.

- Bank: Loan Function = Banking Act / Credit Card • Charge Card Function = Installment Sales Act (JISA)
- Non-Bank: Loan Function = Money Lending Business Act (MLBA) / Credit Card • Charge Card Function = 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) What is the overall regulation under the JISA?

(a) Issuer

The main obligations of issuers are as follows:

- (i) required to take measures concerning the operation of business, including internal control (JISA Article 30-5-2);
- (ii) obligation to provide information to the cardholder at the time of delivery of the card and for each transaction (JISA Article 30, Paragraphs 1 and 2; Article 30-2-3);
- (iii) obligation to make investigations on the comprehensive payable amount of a card applicant who is a consumer (JISA Article 30-2, 脚注 3);
- (iv) obligation to use designated credit bureaus for the investigations provided for in (iii) above (JISA Article 30-2, Paragraph 3);
- (v) statutory limit on the maximum amount of credit limit that an issuer can set in relation with a consumer card holder (JISA Articles 30-2 and 30-2-2);
- (vi) obligation to ensure appropriate management of the credit card numbers (JISA Article 35-16);
- (vii) obligation to display the transaction terms in advertisements (JISA Article 30, Paragraph 4); 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 (JISA Article 30-4).

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

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 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.

By the 2020 amendment, two exceptions were introduced to the regulations in (iii), (iv) and (v). One is for a certified comprehensive credit purchase intermediary, certified as having advanced credit screening technology, which may use a calculation of the user's payable amount instead of the investigation of the comprehensive payable amount (JISA Articles 30-5-4 to 30-5-6). The other is the registration system for registered small-amount comprehensive credit purchase intermediaries, which handle small credit limits and likewise use a calculation of the user's payable amount (JISA Articles 35-2-3 to 35-2-5).

(b) Acquirer

The main obligations of acquirers under the JISA are as follows:

- (i) required to take measures concerning the operation of business, including internal control (JISA Article 35-17-9);
- (ii) required to make investigations on the credit card security measures and credit card fraud protection measures of merchants (JISA Article 35-17-8);
- (iii) required to refuse accepting merchants who have insufficient security measures or credit card fraud protection measures (same Article);
- (iv) obligation to ensure appropriate management of the credit card numbers (JISA Article 35-16); and
- (v) required to file to the certified installment sales association (Japan Consumer 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 (JISA Article 35-20).

For details of the Installment Sales Act, please refer to Ryu Nakasaki, *Detailed Explanation of the Act on Specified Commercial Transactions and the Installment Sales Act* (Kinzai, 2021) (<https://www.amazon.co.jp/dp/432213842X>).

3 Bank Cash Cards and Bank Debit Cards

(1) Who can engage in the business of moving funds?

In Japan, only licensed banks and registered Funds Transfer Service Providers ("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) (脚注 4). So, it can be said that FTSP is equivalent to money services businesses in the US, although there are many differences.

Note 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".

(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.

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 JCB (脚注 5).

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

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

(3) Who can issue Bank Cash Cards?

Only banks with banking license under 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 Cards?

Only Banks can (脚注 6).

Note 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.

(5) Who can acquire merchants for Bank Debit Cards?

The interpretation of the government is not clear.

If it could be said that bank debit card transactions 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, among the business entities that handle such transactions, there appear to be entities that do not treat themselves as conducting Kawase Torihiki. Many Japanese non-bank financial institutions lacking FTSP registration are engaging in the acquiring of debit cards.

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.

4 Money Service Business Cards

(1) What are Money Service Business Cards?

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 Cards?

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

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

The main obligations under the JPSA are as follows:

- (i) required to obtain registration as FTSP (JPSA Article 37);
- (ii) required to comply with the regulations corresponding to the category of funds transfer business to be conducted (JPSA Article 36-2; see (4) below);
- (iii) required to make a security deposit to the government, or to conclude a guarantee contract or a trust contract for performance, or to manage the funds by deposits and savings (JPSA Articles 43, 45 and 45-2);
- (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 take measures for the protection of users, including the provision of information and the issuance of receipts (JPSA Article 51); and
- (vii) required to maintain proper records pertaining to the Funds Transfer Business (JPSA Article 52).

(4) What categories of funds transfer business are there?

By the 2020 amendment, funds transfer business was divided into three categories (JPSA Article 36-2).

- Type I Funds Transfer Business: other than Type II and Type III. There is no cap on the amount remitted, but the business operator must obtain the authorization of the Prime Minister for its business implementation plan (JPSA Article 40-2).
- Type II Funds Transfer Business: conducting only Kawase Torihiki relating to the transfer of funds not exceeding the amount specified by Cabinet Order as a small amount. That amount is an amount equivalent to one million yen (JPSA Enforcement Order Article 12-2, Paragraph 1).
- Type III Funds Transfer Business: conducting only Kawase Torihiki relating to the transfer of funds not exceeding the amount specified by Cabinet Order as a particularly small amount. That amount is an amount equivalent to fifty thousand yen (JPSA Enforcement Order Article 12-2, Paragraph 2).

In addition, there is the category of specified funds transfer business, which conducts only specified trust exchange transactions (JPSA Article 36-2, Paragraph 4).

The business implementation plan for Type I Funds Transfer Business must state the upper limit of the amount of funds to be moved if such a limit is set, the method of managing the electronic data processing system used to conduct Kawase Torihiki, and other matters (JPSA Article 40-2, Paragraph 1). The Prime Minister may attach conditions to the authorization to the extent necessary (same Article, Paragraph 3).

A business operator conducting Type III Funds Transfer Business may, by filing a notification, be exempted from depositing all or part of the performance guarantee deposit for Type III business, in which case it must manage, by the deposit-and-savings management method, an amount of money not less than the amount obtained by multiplying the amount of its unperformed obligations on each business day by the notified management ratio (JPSA Article 45-2, Paragraph 1). The status of such management must be audited periodically by a certified public accountant or an audit firm (same Article, Paragraph 2).

(5) What are the rules on the retention of user funds?

Rules are provided for each category to address user funds received by an FTSP being retained without being used for Kawase Torihiki.

Type I Funds Transfer Business

An FTSP conducting Type I Funds Transfer Business must not assume obligations relating to Kawase Torihiki for which the amount of funds to be moved, the date of the transfer or other matters specified by Cabinet Office Ordinance are unclear (JPSA Article 51-2, Paragraph 1). It also must not assume obligations relating to Kawase Torihiki beyond the period necessary to process the affairs of the transfer of funds or other period specified by Cabinet Office Ordinance (same Article, Paragraph 2).

The matters specified by Cabinet Office Ordinance are (i) the amount of funds to be moved, (ii) the date of the transfer (or, where it is difficult to specify the date, the deadline for the transfer), and (iii) the destination of the transfer (Cabinet Office Ordinance on Funds Transfer Service Providers Article 32-2, Paragraph 1). As for the period, the principle is the period necessary to process the affairs of the transfer; however, where the FTSP has concluded a contract for the assumption of obligations by a performance guarantor or a trust contract for the performance of obligations, or a performance guarantee contract has been concluded upon its entrustment, and it has a structure under which the whole of the obligations relating to Kawase Torihiki can be performed to users promptly and with certainty upon a petition for commencement of bankruptcy proceedings, the period is that period plus the period necessary to improve user convenience, not exceeding two months (same Article, Paragraph 2).

The FSA's Comprehensive Guidelines (Volume 3: Financial Companies), 14 "Funds Transfer Service Providers", III-1-1 refers to this as the "strict retention regulation" and asks, as a supervisory point of focus, whether measures are taken not to receive funds that are not accompanied by a concrete instruction for Kawase Torihiki. The Guidelines note that a "concrete instruction for Kawase Torihiki" requires that (i) the amount of funds to be moved, (ii) the date of the transfer (or the deadline where the date is difficult to specify) and (iii) the destination of the transfer all be clearly specified, and that if even one of them is unclear, it is not recognized as a concrete instruction. The Guidelines also make clear that the regulation applies to a Type I FTSP even where the instruction received from the user is for Kawase Torihiki of one million yen or less per transaction.

Type II Funds Transfer Business

An FTSP conducting Type II Funds Transfer Business must establish a system to confirm whether the funds of a user are to be used for Kawase Torihiki, where the amount of the obligations it owes to that user relating to Kawase Torihiki exceeds an amount equivalent to one million yen (Cabinet Office Ordinance on Funds Transfer Service Providers Article 30-2, Paragraph 1). Where funds received from a user are found not to be used for Kawase Torihiki, the FTSP must take measures not to hold such funds, including returning them to the user (same Article, Paragraph 3).

The Guidelines, 14, IV-1 explain the purpose as (i) the time required for users to obtain refunds if the FTSP fails while holding user funds, (ii) the burden of preservation costs that are not inherently necessary, (iii) the possibility of conflict with the regulation on the acceptance of deposits under Article 2 of the Act Regulating the Receipt of Contributions, the Receipt of Deposits, and Interest Rates, and (iv) the adverse economic effect of an increase in funds not used for economic activities. As points of focus, the Guidelines require a system under which, where the amount received per user exceeds one million yen, the FTSP requests the user to withdraw the funds if it judges the likelihood of their being used for Kawase Torihiki to be low, and takes measures such as returning the funds where the user does not comply; and they require that the relationship between user funds and Kawase Torihiki be judged by comprehensively considering, for each user, (i) the amount received, (ii) the period of receipt, (iii) the record of remittances and (iv) the purpose of use. The Guidelines note that, where the confirmation shows that even the portion not exceeding one million yen is not to be used for Kawase Torihiki, measures not to hold such funds must be taken.

Type III Funds Transfer Business

The Guidelines, 14, V-1 regulate this as the "retention regulation (upper limit relating to Kawase Torihiki)".

(6) 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 Cards (Brand Prepaid Cards, E-money and Gift Cards)

(1) What is a 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 a 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 unauthorised 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 has changed in part by the 2022 amendment, as described in (6) and the following sections below.

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 prepaid payment instrument issuer 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 as an issuer of Prepaid Payment Instruments for Third Parties can (脚注 7).

Banks can also acquire such registration.

Note 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. Issuers for Own Business file a notification (JPSA Article 5) and Issuers for Third Parties obtain a registration (JPSA Article 7).

According to the lists published by the FSA, there are 787 registered issuers of Prepaid Payment Instruments for Third Parties and 1,228 notified issuers of Prepaid Payment Instruments for Own Business (both as of August 31, 2026).

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

The regulations are much lighter compared to MSB Cards.

(4) Why are they regulated lighter than MSB Cards?

Prepaid Payment Instrument Cards cannot be basically redeemed.

So, for example, in case a user purchases a Prepaid Payment Instrument Card at a convenience store and sends 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 take measures for the protection of users, including the display or provision of certain information pertaining to the Prepaid Payment Instrument (JPSA Article 13);
- (iii) required to make a security deposit to the government or to conclude a guarantee contract or a trust contract (JPSA Articles 14 to 16), with an exception for issuers that are banks and the like (JPSA Article 35);
- (iv) required to take necessary measures to ensure proper and secure handling of information regarding the issuance of Prepaid Payment Instruments (JPSA Article 21);
- (v) required to implement measures to guide outsourcing companies (JPSA Article 21-2);
- (vi) required to take measures concerning the handling of complaints (JPSA Article 21-3); and
- (vii) required to maintain proper records pertaining to the issuance of Prepaid Payment Instruments (JPSA Article 22).

The provisions of Chapter 2 of the JPSA do not apply to the following Prepaid Payment Instruments (JPSA Article 4). Items 2 and 7 are particularly important in practice.

- Item 1: tickets for transportation, admission tickets and the like, as specified by Cabinet Order
- Item 2: Prepaid Payment Instruments that can be used only within a certain period specified by Cabinet Order from the date of issuance. That period is six months (JPSA Enforcement Order Article 4, Paragraph 2)
- Items 3 and 4: those issued by the national government, local governments and the like
- Item 5: Prepaid Payment Instruments for Own Business issued exclusively to the employees of the issuer (including closely related persons) and the like
- Item 6: those specified by Cabinet Order as relating to transactions for which measures to preserve advance payments are taken under the Installment Sales Act or other laws
- Item 7: Prepaid Payment Instruments that are to be used only in transactions that constitute commercial transactions for the user (business-to-business)

(6) What is a High-Value Electronically Transferable Prepaid Payment Instrument?

Traditionally, anti-money laundering related regulations were basically not applied to non-bank issuers of Prepaid Payment Instruments. This changed by the 2022 amendment (in force from June 1, 2023).

The definition is placed not in Article 2 but in Article 3, Paragraph 8 of the JPSA. Item 1 covers a Prepaid Payment Instrument for Third Parties whose unused balance is recorded in a prepaid payment instrument recording account and which can be transferred using an electronic data processing system (limited to those satisfying the requirements specified by Cabinet Office Ordinance), and Item 2 covers those specified by Cabinet Office Ordinance as equivalent thereto.

The requirements under the Cabinet Office Ordinance fall into three types (Cabinet Office Ordinance on Prepaid Payment Instruments Article 5-2).

- Balance-transfer type (Paragraph 1, Item 1): a Prepaid Payment Instrument for Third Parties to which the unused balance is added by an electromagnetic method, where (a) the unused balance that can be transferred per transfer exceeds one hundred thousand yen, or (b) the aggregate unused balance that can be transferred within one month exceeds three hundred thousand yen.
- Number-notification type (Paragraph 1, Item 2): the same kind of instrument, where (a) the unused balance that can be recorded in the prepaid payment instrument recording account per record exceeds one hundred thousand yen, or (b) the aggregate unused balance that can be recorded within one month exceeds three hundred thousand yen. Excluded are balance-transfer type instruments for which the issuer manages information on the person to whom the instrument was issued.
- Equivalent to the number-notification type (Paragraph 2): those satisfying all of the following: the aggregate unused balance that can be recorded within one month exceeds three hundred thousand yen; a registered trademark designated by the Commissioner of the FSA is affixed by an issuer holding the right to use it; the aggregate unused balance within one month that can be applied to payment at merchants displaying the mark of that registered trademark exceeds three hundred thousand yen; and the instrument can be used for payment without any certificate or the like. So-called international brand prepaid cards are contemplated.

(7) What procedures are required in order to issue a High-Value Electronically Transferable Prepaid Payment Instrument?

A Prepaid Payment Instrument issuer must, before issuing a High-Value Electronically Transferable Prepaid Payment Instrument, file with the Prime Minister a business implementation plan stating (i) the upper limit of the unused balance to be recorded in the prepaid payment instrument recording account, if such a limit is set, (ii) the method of managing the electronic data processing system used for the issuing business, and (iii) other matters specified by Cabinet Office Ordinance (JPSA Article 11-2, Paragraph 1). A change to the plan must likewise be filed in advance (same Article, Paragraph 2).

(8) Does the issuer become subject to the Act on Prevention of Transfer of Criminal Proceeds?

A person who has filed this notification becomes a "specified business operator" under the Act on Prevention of Transfer of Criminal Proceeds (Article 2, Paragraph 2, Item 30-2: "a prepaid payment instrument issuer provided for in Article 2, Paragraph 1 of the Payment Services Act that has filed the notification under Article 11-2, Paragraph 1 of that Act"). It therefore owes the obligations of verification at the time of transaction, preparation and retention of verification records and transaction records, and reporting of suspicious transactions.

However, instruments falling under the exemptions in JPSA Article 4 do not fall under this type and the issuer does not become a specified business operator. By setting a validity period of six months (JPSA Article 4, Item 2 and Enforcement Order Article 4, Paragraph 2), or by making the instrument usable only in transactions that constitute commercial transactions for the user, that is, business-to-business (JPSA Article 4, Item 7), an issuer can avoid the application of the Act on Prevention of Transfer of Criminal Proceeds.

(9) How are such issuers supervised?

The FSA's Comprehensive Guidelines (Volume 3: Financial Companies), 5 "Prepaid Payment Instrument Issuers", II-5 sets out the supervisory evaluation points for the business of issuing High-Value Electronically Transferable Prepaid Payment Instruments. Issuers are required to establish risk management systems in line with the FSA's Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism, and to conduct risk assessment and monitoring of their agents.

(10) How many issuers are there?

Neither the FSA nor the Local Finance Bureaus publish a list or the number of issuers that have filed the notification for High-Value Electronically Transferable Prepaid Payment Instruments. The FSA's published lists of registered issuers of Prepaid Payment Instruments for Third Parties and of notified issuers for Own Business do not separately identify High-Value Electronically Transferable Prepaid Payment Instruments.

The FSA's "Initiatives and Challenges in Anti-Money Laundering and Financial Crime Countermeasures (2025)" states that, in the financial sector analysis of June 2025, issuers of High-Value Electronically Transferable Prepaid Payment Instruments that have filed the notification under JPSA Article 11-2 were newly added as subjects of analysis, and notes that, while the users who actually charge or transfer high balances are considered to be limited, services allowing charges of tens of millions of yen are offered in the case of international brand prepaid payment instruments. That document, too, does not state the number of issuers.

As an indication, the National Police Agency (JAFIC) "Annual Report on Prevention of Transfer of Criminal Proceeds (2025)" reports the annual number of notifications of suspicious transactions by business category. For "issuers of High-Value Electronically Transferable Prepaid Payment Instruments", the figures are zero for 2023, zero for 2024 and 306 for 2025. It can be seen that notifications began to be made in 2025. To learn the number of issuers themselves, an inquiry to the Local Finance Bureau with which the notification is filed would be required.

6 Electronic Payment Instruments (Stablecoins)

(1) Why was a new framework introduced?

There are various definitions of stablecoins. For example, they are defined as (i) a type of virtual asset whose value is pegged to certain assets (a currency or gold), or (ii) something designed to maintain a stable value against fiat currency and which may come to be widely used as a means of payment. Typical examples are "USD Coin" and "Tether".

In October 2019, the FATF clarified that stablecoins fall within the definition of virtual assets, and that businesses handling stablecoins are subject to anti-money laundering regulation under the FATF Recommendations either as virtual asset service providers or as traditional financial service providers (for example, banks and remittance providers). In June 2020, the FATF published a report on stablecoins, further clarifying the application of the FATF Recommendations to them.

Against this global regulatory background, the 2022 amendment (in force from June 1, 2023) introduced the concept of "electronic payment instruments" into the JPSA.

(2) In what forms are stablecoins issued?

Stablecoins are contemplated to be issued in one of the following forms.

- (i) property value denominated in a currency that can be transferred using an electronic data processing system; or issued in the form of a trust beneficial interest satisfying requirements such as that the trustee manages the whole of the money by deposits and savings; or equivalents thereof
- (ii) claims that users of a funds transfer business hold against the FTSP (claims relating to obligations arising from Kawase Torihiki) ("FTSP-issued stablecoins")

- (iii) deposit claims that users of banks and the like hold against banks and the like ("bank-issued stablecoins")

Of these, (i) has been defined as "electronic payment instruments" under the JPSA, whereas (ii) and (iii) can continue to be treated as deposit claims and claims relating to obligations arising from Kawase Torihiki, and no new definition was considered necessary.

Accordingly, even for something called a "stablecoin", the applicable regulation differs depending on who issues it. Those issued by an FTSP are subject to the funds transfer business regulation (Section 4 above), and those issued by a bank or the like are subject to the Banking Act.

(3) What is an electronic payment instrument?

JPSA Article 2, Paragraph 5 divides electronic payment instruments into the following four items.

- Item 1: property value that can be used in relation to unspecified persons for the purpose of paying consideration for the purchase or lease of goods or the receipt of services, and that can be purchased from and sold to unspecified persons (limited to property value denominated in a currency that is recorded on an electronic device or other object by an electronic method, and excluding securities, electronically recorded monetary claims, prepaid payment instruments and other similar items specified by Cabinet Office Ordinance), and that can be transferred using an electronic data processing system (excluding those falling under Item 3)
- Item 2: property value that can be mutually exchanged with that listed in Item 1 with unspecified persons as counterparties, and that can be transferred using an electronic data processing system (excluding those falling under Item 3)
- Item 3: specified trust beneficial interests
- Item 4: those specified by Cabinet Office Ordinance as equivalent to the preceding three items

"Property value denominated in a currency" means assets denominated in Japanese or foreign currency, or in respect of which performance of obligations, refunds or equivalents are to be made in Japanese or foreign currency (same Article, Paragraph 7). "Specified trust beneficial interest" means a beneficial interest in a money trust (limited to where it is expressed in property value transferable using an electronic data processing system) that satisfies requirements including that the ratio of the amount managed by deposits and savings out of the total money received by the trustee under the trust contract is at or above the ratio specified by Cabinet Office Ordinance (same Article, Paragraph 9). Trust-type stablecoins fall under this.

Property value whose value is not linked to that of fiat currency does not constitute property value denominated in a currency, and is therefore treated not as an electronic payment instrument but as a crypto asset.

(4) What is the electronic payment instrument exchange business, and is registration required?

JPSA Article 2, Paragraph 10 defines "electronic payment instrument exchange business" as conducting any of the following acts as a business. Items 1 and 2 are called "exchange of electronic payment instruments" and Item 3 is called "management of electronic payment instruments", and together they are called "electronic payment instrument related business" (same Article, Paragraph 11).

- Item 1: the purchase and sale of electronic payment instruments, or the exchange of electronic payment instruments with other electronic payment instruments
- Item 2: the intermediation, brokerage or agency of the acts listed in the preceding item
- Item 3: the management of electronic payment instruments for others (excluding those specified by Cabinet Office Ordinance as unlikely to result in insufficient protection of users, taking into account their content and the like)
- Item 4: upon entrustment by an FTSP, agreeing with a user (limited to a person who has concluded a contract with that FTSP to conduct Kawase Torihiki continuously or repeatedly), on behalf of that FTSP, to decrease the amount of a claim relating to an obligation arising from Kawase Torihiki by moving funds under that

contract, or to increase it by the amount of funds received through Kawase Torihiki, by a method using an electronic data processing system, and increasing or decreasing the amount of such claim on the basis of that agreement

Registration with the Prime Minister is required to conduct the electronic payment instrument exchange business (JPSA Article 62-3). A registered person is an "electronic payment instrument exchange service provider" (JPSA Article 2, Paragraph 12).

According to the list of registered electronic payment instrument exchange service providers published by the FSA, only two providers are registered (as of August 27, 2026). Both are entities already registered as crypto asset exchange service providers.

(5) What are the main obligations of an electronic payment instrument exchange service provider?

- (i) registration (JPSA Article 62-3);
- (ii) special provisions concerning persons issuing electronic payment instruments (JPSA Article 62-8), which apply where, for example, an FTSP conducts the electronic payment instrument exchange business with respect to electronic payment instruments it issues itself;
- (iii) prohibition of name lending (JPSA Article 62-9);
- (iv) safety management of information (JPSA Article 62-10);
- (v) guidance of outsourcing companies (JPSA Article 62-11); and
- (vi) measures for the protection of users (JPSA Article 62-12).

(6) Who intermediates stablecoins issued by banks and the like?

The report of the Financial System Council divides the functions performed by providers of remittance and settlement services using stablecoins into (i) provision of the mechanism for issuance, redemption and value stabilisation, (ii) the transfer function, and (iii) the customer-facing function for management and transactions. It then classifies cases into (a) where all three functions are provided by a single company (integrated type) and (b) where the issuer providing function (i) and the intermediary providing functions (ii) and (iii) are separate (separated type).

For the separated type, there are three categories depending on whether the issuer is (a) a bank, (b) an FTSP, or (c) a trust company issuing specified trust beneficial interests (a specified trust company).

For bank-issued electronic payment instruments, an electronic payment handling service provider may perform the intermediary function. "Electronic payment handling business" means the business of conducting (i) the act of, upon entrustment by a bank and on behalf of that bank, agreeing with a depositor having a deposit account at that bank, by a method using an electronic data processing system, to decrease the amount of the deposit claim by moving funds in that account, or to increase it by the amount of funds received through Kawase Torihiki, and increasing or decreasing the amount of the deposit claim on the basis of that agreement, and (ii) the act of, in connection with the act in (i), intermediating the conclusion of contracts for the acceptance of deposits for the entrusting bank (Banking Act Article 2, Paragraph 17). A person registered to conduct this business is an "electronic payment handling service provider" (same Article, Paragraph 18; Banking Act Article 52-60-3).

Where the entrustment is from a Shinkin bank, the business is "Shinkin bank electronic payment handling business" (Shinkin Bank Act Article 85-3, Paragraph 2), and where it is from a credit cooperative, it is "credit cooperative electronic payment handling business" (Act on Financial Businesses by Cooperatives Article 6-4-3, Paragraph 2).

For the FTSP type and the specified trust company type, an electronic payment instrument exchange service provider may perform the intermediary function.

It should be noted that the electronic payment handling business (Banking Act Article 2, Paragraph 17) is a different concept from the electronic payment services business (same Article, Paragraph 21). The latter is the business of, upon entrustment by a depositor, transmitting to the bank an instruction for Kawase Torihiki to move funds in the account, or of obtaining account information from the bank and providing it to the depositor; so-called API connection providers for payment initiation and account information services fall under it (same Article, Paragraph 22; Banking Act Article 52-61-2).

(7) Is the provider subject to the Act on Prevention of Transfer of Criminal Proceeds?

An electronic payment instrument exchange service provider is a specified business operator under the Act on Prevention of Transfer of Criminal Proceeds (Article 2, Paragraph 2, Item 31-2). An electronic payment handling service provider (limited to registered providers) is also a specified business operator (same Paragraph, Item 31-3; Banking Act Article 2, Paragraph 18 and Article 52-60-3), as are Shinkin bank electronic payment handling service providers and credit cooperative electronic payment handling service providers (same Paragraph, Items 31-4 and 31-5).

a Confirmation corresponding to that for correspondent banking contracts

Where an electronic payment instrument exchange service provider concludes a contract to transfer electronic payment instruments continuously or repeatedly with a person located in a foreign country conducting business of the same kind as the electronic payment instrument related business, it must confirm and record that the counterparty has established a system conforming to the standards necessary to appropriately carry out measures equivalent to verification at the time of transaction and the like, and that the counterparty has not concluded a contract of the same kind with a foreign electronic payment instrument exchange service provider that is not in a state of being supervised (Act on Prevention of Transfer of Criminal Proceeds Article 10-2; Enforcement Regulation Article 31-3). The method of confirmation is to receive a declaration from the counterparty, or to review information published on the internet by the counterparty or by a foreign authority corresponding to a supervisory authority (same Regulation Article 31-2).

However, (i) contracts under which specified trust beneficial interests are the electronic payment instruments, and (ii) contracts under which the acts constituting the transfer are the purchase and sale or exchange of electronic payment instruments or the intermediation, brokerage or agency thereof, are not covered (Article 10-2, main clause).

b Notification obligation (the travel rule)

Where an electronic payment instrument exchange service provider transfers electronic payment instruments upon request from a customer, and (i) the transfer is made to a person who, as a customer of another electronic payment instrument exchange service provider or a foreign electronic payment instrument exchange service provider, entrusts the management of electronic payment instruments to that other provider (the receiving customer), or (ii) the transfer to the receiving customer is entrusted to another such provider, it must notify the identification matters of the requesting customer and of the receiving customer and other matters (Article 10-3, Paragraph 1; Enforcement Regulation Article 31-4, Paragraph 1).

The matters to be notified include the name of the customer, the residence or the location of the head office or the customer identification number, and the identifier relating to the transfer (what is called a blockchain address) or a code sufficient to identify it.

All transfers are covered regardless of the amount and the type, but specified trust beneficial interests are excluded. Since the counterparties covered are limited to registered providers or those equivalent thereto, transfers to individuals and unregistered providers are not covered.

The same notification obligation applies where the provider receives a notification from another such provider and is entrusted or sub-entrusted with the transfer (Article 10-3, Paragraph 2; Enforcement Regulation Article 31-4, Paragraph 2).

Where the receiving customer entrusts the management of electronic payment instruments, as a customer, to a foreign electronic payment instrument exchange service provider located in a country or region designated by notification of the Ministry of Finance and the FSA, the notification obligation is exempted (Article 10-3, Paragraph 1; Enforcement Order Article 17-2). In short, the travel rule notification obligation is exempted in relation to countries and regions that have not implemented the travel rule.

7 Crypto Assets

The rules on crypto assets are currently in the Payment Services Act, but they will move to the Financial Instruments and Exchange Act ("FIEA") by the 2026 amendment. Part I below describes the current regulation under the JPSA, and Part II describes the move to the FIEA.

I Current law: regulation under the Payment Services Act

(1) How have crypto assets been regulated?

By the 2016 amendment to the JPSA (in force in April 2017), virtual currency exchange service providers were made subject to registration. By the 2019 amendment, the term "virtual currency" was changed to "crypto asset", and prohibitions on false or exaggerated advertising and obligations to take measures to secure the value of users' assets were introduced.

(2) What is a crypto asset?

JPSA Article 2, Paragraph 14 defines "crypto asset" as follows, excluding, however, those representing rights provided for in Article 29-2, Paragraph 1, Item 8 of the FIEA.

- Item 1: property value that can be used in relation to unspecified persons for the purpose of paying consideration for the purchase or lease of goods or the receipt of services, and that can be purchased from and sold to unspecified persons (limited to property value recorded on an electronic device or other object by an electronic method, and excluding Japanese and foreign currency, property value denominated in a currency, and electronic payment instruments (excluding those falling under property value denominated in a currency)), and that can be transferred using an electronic data processing system
- Item 2: property value that can be mutually exchanged with that listed in Item 1 with unspecified persons as counterparties, and that can be transferred using an electronic data processing system

Property value whose value is linked to fiat currency is excluded as property value denominated in a currency or as an electronic payment instrument. Gift cards and prepaid cards usually do not fall under crypto assets.

(3) What is the crypto asset exchange business, and is registration required?

JPSA Article 2, Paragraph 15 defines "crypto asset exchange business" as conducting any of the following acts as a business. Items 1 and 2 are called "exchange of crypto assets" and Item 4 is called "management of crypto assets".

- Item 1: the purchase and sale of crypto assets or the exchange of crypto assets with other crypto assets
- Item 2: the intermediation, brokerage or agency of the acts listed in the preceding item
- Item 3: the management of users' money in connection with the acts listed in the preceding two items
- Item 4: the management of crypto assets for others (excluding where there is a special provision in another Act on conducting such management as a business)

Registration with the Prime Minister is required (JPSA Article 63-2), and a registered person is a "crypto asset exchange service provider" (JPSA Article 2, Paragraph 16).

According to the list of registered crypto asset exchange service providers published by the FSA, 27 providers are registered (as of September 1, 2026).

(4) What are the main obligations of a crypto asset exchange service provider?

- (i) registration (JPSA Article 63-2);
- (ii) advertising regulation (JPSA Article 63-9-2);
- (iii) prohibited acts (JPSA Article 63-9-3);
- (iv) measures for the protection of users (JPSA Article 63-10);
- (v) management of users' property (JPSA Article 63-11). The provider must manage users' money separately from its own money and entrust it to a trust company or the like. It must also manage users' crypto assets separately from its own crypto assets and, except for those falling under the requirements specified by Cabinet Office Ordinance, manage them by a method specified by Cabinet Office Ordinance as unlikely to result in insufficient protection of users (so-called cold wallets). The status of such management must be audited periodically by a certified public accountant or an audit firm;
- (vi) performance guarantee crypto assets (JPSA Article 63-11-2). For users' crypto assets managed in hot wallets, the provider must hold crypto assets of the same kind and quantity as its own crypto assets and manage them separately;
- (vii) obligation to conclude a contract with a designated dispute resolution organization for crypto asset exchange services (JPSA Article 63-12); and
- (viii) submission of reports (JPSA Article 63-14).

(5) What if only the intermediation of the purchase and sale of crypto assets is conducted?

By an amendment that came into force in 2026, the "electronic payment instrument and crypto asset service intermediary business" was introduced. It covers, among others, the act of a person other than a crypto asset exchange service provider, upon entrustment by a crypto asset exchange service provider, intermediating the purchase and sale of crypto assets or the exchange of crypto assets with other crypto assets for that provider (crypto asset intermediation act) (JPSA Article 2, Paragraph 18), and requires registration with the Prime Minister (JPSA Article 63-22-2). Since an intermediary does not itself receive users' money or crypto assets, the regulation is lighter than that for the crypto asset exchange business. See Section 8 below.

(6) Is a crypto asset exchange service provider subject to the Act on Prevention of Transfer of Criminal Proceeds?

Yes. A crypto asset exchange service provider is a specified business operator (Act on Prevention of Transfer of Criminal Proceeds Article 2, Paragraph 2, Item 32).

a Confirmation corresponding to that for correspondent banking contracts

Where a crypto asset exchange service provider concludes a contract to transfer crypto assets continuously or repeatedly with a person located in a foreign country conducting business of the same kind as a crypto asset exchange service provider, it must confirm and record that the counterparty has established a system conforming to the standards necessary to appropriately carry out measures equivalent to verification at the time of transaction and the like, and that the counterparty has not concluded a contract of the same kind with a foreign crypto asset exchange service provider that is not in a state of being supervised (Article 10-4; Enforcement Regulation Article 31-6). The method of confirmation is to receive a declaration from the counterparty, or to review information published on the internet by the counterparty or by a foreign authority corresponding to a supervisory authority (same Regulation Article 31-5). Contracts under which the acts constituting the transfer are the purchase and sale

or exchange of crypto assets or the intermediation, brokerage or agency thereof are not covered (Article 10-4, main clause).

b Notification obligation (the travel rule)

Where a crypto asset exchange service provider transfers crypto assets upon request from a customer, and (i) the transfer is made to a person who, as a customer of another crypto asset exchange service provider or a foreign crypto asset exchange service provider, entrusts the management of crypto assets to that other provider (the receiving customer), or (ii) the transfer to the receiving customer is entrusted to another such provider, it must notify the identification matters of the requesting customer and of the receiving customer and other matters (Article 10-5, Paragraph 1; Enforcement Regulation Article 31-7, Paragraph 1). The matters to be notified include the name of the customer, the residence or the location of the head office or the customer identification number, and the identifier relating to the transfer (what is called a blockchain address) or a code sufficient to identify it.

All transfers are covered regardless of the amount and the type. Since the counterparties covered are limited to registered providers, transfers to individuals and unregistered providers are not covered. The same obligation applies where the provider receives a notification from another such provider and is entrusted or sub-entrusted with the transfer (Article 10-5, Paragraph 2).

II Move to the Financial Instruments and Exchange Act

(1) Which Act effects the move?

The "Act Partially Amending the Financial Instruments and Exchange Act and the Payment Services Act" (Act No. 64 of 2026, promulgated on July 23, 2026) moves the rules on crypto assets from the Payment Services Act to the Financial Instruments and Exchange Act. Crypto assets are positioned as subject to regulation under the FIEA, and the business regulation is brought within the framework of the financial instruments business.

(2) When does it come into force?

Article 1 of the Supplementary Provisions of the amending Act provides that the Act comes into force on the date specified by Cabinet Order within a period not exceeding one year from the date of promulgation, with exceptions set out in each item. The main ones are as follows.

- Article 90 of the Supplementary Provisions: the date of promulgation (July 23, 2026) (Article 1, Item 1)
- The amendments to the penal provisions in FIEA Articles 197, Paragraph 1, 197-2, Paragraph 1 and 210, Paragraph 1, and Articles 41, 47 and 89 of the Supplementary Provisions: the date on which twenty days have elapsed from the date of promulgation (August 12, 2026) (same Article, Item 2)
- The provisions of Article 1 of the amending Act (excluding the amendments to the penal provisions above) and other provisions: April 1, 2027 (same Article, Item 4)

The core of the move of crypto assets to the FIEA comes into force on July 22, 2027. On that date, the definitions of "crypto asset" and "crypto asset exchange business" are deleted from the Payment Services Act, definitions relating to crypto assets are placed in FIEA Article 2, and "crypto asset trading business" is established in FIEA Article 28, Paragraph 5. The location of the rules themselves moves.

This reflects the Cabinet Order having designated the last possible date within the period of "not exceeding one year from the date of promulgation" under the main clause of Article 1 of the Supplementary Provisions.

In addition, there are provisions coming into force on October 1, 2027, January 1, 2028 and June 13, 2028 (staged entry into force).

(3) What is the crypto asset trading business?

[In force from July 22, 2027] FIEA Article 28, Paragraph 5 defines "crypto asset trading business" as conducting, as a business, any of the following acts among financial instruments business, and includes the conducting of any of those acts as a business by banks, cooperative financial institutions and other financial institutions specified by Cabinet Order.

- Item 1: the acts listed in Article 2, Paragraph 8, Items 18 to 22 or Item 25
- Item 2: the acts listed in Article 2, Paragraph 8, Item 23 or 24

Paragraph 8 of the same Article provides that, among the business relating to the crypto asset trading business, the business relating to the acts listed in Paragraph 5, Item 2 is "crypto asset management business".

(4) What acts become newly subject to regulation?

Item	Act	Note
18	purchase and sale of crypto assets (including exchange with other crypto assets, and excluding those falling under derivative transactions)	corresponds to the current exchange business
19	intermediation, brokerage or agency of the acts in the preceding item	same
20	underwriting of specified crypto assets (conducting any of the acts listed in each item of Paragraph 53 on the occasion of a specified crypto asset acquisition solicitation)	new
21	public offering or secondary distribution of specified crypto assets	new
22	handling of specified crypto asset acquisition solicitations	new
23	receiving deposits of money from customers in connection with the acts listed in Items 18 to 22	crypto asset management business
24	management of crypto assets for others (excluding where there is a special provision in another Act on conducting such management as a business)	crypto asset management business
25	borrowing of crypto assets	new
26	acts specified by Cabinet Order as similar to those listed in each of the preceding items	—

(5) What happens to providers currently registered?

The Supplementary Provisions of the amending Act contain the following transitional measures for business operators currently registered for the crypto asset exchange business.

a Registered providers under the old JPSA that are not financial instruments business operators (Article 8 of the Supplementary Provisions)

A person who, at the time of entry into force, holds a registration under Article 63-2 of the old JPSA (excluding financial instruments business operators) may conduct the crypto asset trading business for **six months from the date of entry into force**, notwithstanding FIEA Article 29 (Article 8, Paragraph 1). "Crypto asset trading business" here means the business relating to the acts listed in Item 1 of FIEA Article 28, Paragraph 5 (excluding

the act listed in FIEA Article 2, Paragraph 8, Item 25, the borrowing of crypto assets) or the crypto asset management business provided for in Paragraph 8 of that Article.

If the person applies for registration under FIEA Article 29 within that six-month period, it may continue to conduct the business until a disposition of registration or refusal of registration is made. However, this does not apply once **two years have elapsed from the date of entry into force** (same Article, Paragraph 2).

While conducting business under this transitional measure, the person is deemed to be a financial instruments business operator, and the principal conduct regulations, supervisory provisions and penal provisions of the FIEA, as well as the amended Foreign Exchange and Foreign Trade Act and the amended Act on Prevention of Transfer of Criminal Proceeds, apply (same Article, Paragraph 3). An order of revocation of registration is replaced by an order to abolish the whole of the crypto asset trading business.

b Registered providers that are already financial instruments business operators (Article 9 of the Supplementary Provisions)

A financial instruments business operator that, at the time of entry into force, holds a registration under Article 63-2 of the old JPSA is deemed, on the date of entry into force, to intend to make a change to the matters listed in FIEA Article 29-2, Paragraph 1, Item 5 (limited to the addition of a category of business relating to the crypto asset trading business or the crypto asset management business), and FIEA Article 31, Paragraph 4 on registration of change applies. In that case, it may conduct the crypto asset trading business for six months from the date of entry into force without obtaining the registration of change, and, if it applies within that period, until a disposition is made; this does not apply once two years have elapsed from the date of entry into force (Article 9, Paragraphs 1 and 2).

c Notification obligation (Article 10 of the Supplementary Provisions)

A person who may conduct the crypto asset trading business under a or b above must, **within two weeks from the date of entry into force**, notify the Prime Minister of (i) the matters listed in Items 1, 2 and 10 of Article 63-3, Paragraph 1 of the old JPSA (including the registration number in the case of a financial instruments business operator), (ii) the name and location of the business office relating to the crypto asset trading business, (iii) the names of officers, (iv) the names of the crypto assets handled, (v) the content and method of the crypto asset trading business, and (vi) other matters specified by Cabinet Office Ordinance (Article 10, Paragraph 1).

If the person fails to file this notification, or files a false notification, the transitional measure ceases to apply from the day following the expiry of the two-week period (same Article, Paragraph 2). In other words, a failure to file the notification results in the loss of the six-month grace period and in conducting business without registration. This is the point requiring the greatest care in practice.

A change to the names of the crypto assets handled or to the content or method of the crypto asset trading business must in principle be notified in advance (same Article, Paragraph 3), and changes to the other notified matters must be notified without delay (same Article, Paragraph 4).

d Notification concerning new financial instruments business other than crypto assets (Article 7 of the Supplementary Provisions)

Where a person that did not hold a crypto asset exchange business registration conducts business that newly falls under financial instruments business as a result of the amendment, a six-month transitional measure also applies (Articles 5 and 6 of the Supplementary Provisions), and in that case too a notification must be filed within two weeks from the date of entry into force (Article 7, Paragraph 1). Failure to notify likewise results in the transitional measure ceasing to apply (same Article, Paragraph 2).

e Replacement concerning grounds for disqualification (Article 12 of the Supplementary Provisions)

A person whose registration under Article 63-2 of the old JPSA was revoked under Article 63-17, Paragraph 1 or 2 of the old JPSA and for whom five years have not elapsed from the date of revocation, and the like, is deemed to

fall under FIEA Article 29-4, Paragraph 1, Item 8(a). The same applies to the revocation of a registration for the electronic payment instrument and crypto asset service intermediary business.

f Treatment under the Act on Special Measures Concerning Taxation (Article 11 of the Supplementary Provisions)

A person who may conduct the crypto asset trading business under Article 8, Paragraph 1 or 2 of the Supplementary Provisions is deemed to fall under a financial instruments business operator provided for in Article 38-2, Paragraph 1 of the Act on Special Measures Concerning Taxation.

(6) What should be noted in practice?

The name changes. A provider will no longer be a "crypto asset exchange service provider" but a financial instruments business operator conducting the "crypto asset trading business" under the FIEA.

A new concept of "specified crypto asset" is introduced, and underwriting, public offering and secondary distribution, and the handling of acquisition solicitations become subject to regulation. This suggests that disclosure regulation analogous to that for securities will apply.

The "borrowing of crypto assets" (FIEA Article 2, Paragraph 8, Item 25) is expressly added to the scope of the business regulation. The existing analysis of lending may change. It should be noted that the "crypto asset trading business" covered by the transitional measure in Article 8, Paragraph 1 of the Supplementary Provisions excludes this borrowing of crypto assets. It can be read that a person intending to conduct borrowing as a business must obtain registration rather than rely on the transitional measure.

Entry into force is staged. The core of the move of crypto assets is July 22, 2027, and there are provisions coming into force on October 1, 2027, January 1, 2028 and June 13, 2028.

Cabinet Orders and Cabinet Office Ordinances are to be developed going forward. The specific treatment during the transition will require the development of Cabinet Office Ordinances and supervisory guidelines. The latest developments should be confirmed from the materials published by the FSA.

8 Electronic Payment Instrument and Crypto Asset Service Intermediary Business

(1) What kind of business is the intermediary business?

It is a category of intermediary that conducts the intermediation of the purchase and sale of electronic payment instruments and crypto assets without itself receiving users' money, electronic payment instruments or crypto assets.

JPSA Article 2, Paragraph 18 defines "electronic payment instrument and crypto asset service intermediary business" as conducting any of the following acts as a business. Item 1 is called an "electronic payment instrument intermediation act" and Item 2 a "crypto asset intermediation act".

- Item 1: the act of a person other than an electronic payment instrument exchange service provider, upon entrustment by such a provider, intermediating for that provider the purchase and sale of electronic payment instruments or the exchange of electronic payment instruments with other electronic payment instruments
- Item 2: the act of a person other than a crypto asset exchange service provider, upon entrustment by such a provider, intermediating for that provider the purchase and sale of crypto assets or the exchange of crypto assets with other crypto assets

(2) Is registration required?

Yes. Registration with the Prime Minister is required (JPSA Article 63-22-2). A registered person is an "electronic payment instrument and crypto asset service intermediary" (JPSA Article 2, Paragraph 19).

A person registered in a foreign country under a registration of the same kind and conducting the same business is a "foreign electronic payment instrument and crypto asset service intermediary" (same Article, Paragraph 20).

(3) How does it differ from the electronic payment instrument exchange business and the crypto asset exchange business?

An intermediary does not itself receive users' money, electronic payment instruments or crypto assets. Accordingly, the obligations imposed on the electronic payment instrument exchange business and the crypto asset exchange business, such as segregated management of users' property and the holding of performance guarantee crypto assets, are not imposed, and the regulation is lighter.

Because the structure is that the intermediary acts upon entrustment by, and for, the electronic payment instrument exchange service provider or crypto asset exchange service provider that is the counterparty of the intermediation, the entrusting provider bears responsibility for guidance of the intermediary.

(4) How many providers are there?

At the time of writing, the FSA's list of licensed, authorised and registered business operators does not include a list of electronic payment instrument and crypto asset service intermediaries. To ascertain the number of registered providers, an inquiry to the Local Finance Bureaus would be required.

(5) How are they supervised?

The FSA's Comprehensive Guidelines (Volume 3: Financial Companies), 18 "Electronic Payment Instrument and Crypto Asset Service Intermediaries" sets out the supervisory evaluation points.

After the rules on crypto assets move to the FIEA (Section 7, Part II above), the treatment of acts corresponding to crypto asset intermediation acts will be organised in relation to the framework of financial instruments intermediary business and the like under the FIEA. The Supplementary Provisions of the amending Act contain transitional measures concerning the financial instruments intermediary business.

9 Exchange Transaction Analysis Business

(1) What kind of business is the exchange transaction analysis business?

It is the business of conducting, upon entrustment by more than one financial institution, analyses relating to Kawase Torihiki carried out by those institutions: whether a transaction falls under payments subject to economic sanctions, whether it relates to a person subject to asset freezing, and the analysis necessary for judging whether to file a suspicious transaction report. It is a framework for pooling the sanctions list screening and transaction monitoring that each financial institution had been performing individually, and for levelling the standard of such work.

JPSA Article 2, Paragraph 21 defines "exchange transaction analysis business" as conducting, as a business, any of the following acts relating to Kawase Torihiki carried out by more than one financial institution (banks and the like and others specified by Cabinet Order) upon entrustment by those institutions.

- Item 1: analysing whether the Kawase Torihiki falls under Kawase Torihiki relating to payments and the like listed in each item of Article 17 of the Foreign Exchange and Foreign Trade Act, and notifying the result to the financial institution
- Item 2: analysing whether the Kawase Torihiki falls under Kawase Torihiki relating to a person subject to asset freezing and the like provided for in Article 9 of the Act on Special Measures Concerning the Freezing of Assets of Persons Implemented by Japan in Light of United Nations Security Council Resolution 1267 and Others, or other persons equivalent thereto specified by competent ministerial ordinance, and notifying the result to the financial institution

- Item 3: conducting the analysis necessary for making the judgment under Article 8, Paragraph 1 of the Act on Prevention of Transfer of Criminal Proceeds (the judgment on filing a suspicious transaction report) with respect to the Kawase Torihiki, and notifying the result to the financial institution

(2) Is a licence required? Is it not a registration?

The exchange transaction analysis business may not be conducted except by a person who has obtained the **permission (licence) of the competent minister** (JPSA Article 63-23). Whereas the other business categories under the JPSA are subject to registration (issuers of Prepaid Payment Instruments for Third Parties, funds transfer business, electronic payment instrument exchange business, crypto asset exchange business, and the intermediary business) or notification (issuers of Prepaid Payment Instruments for Own Business), the exchange transaction analysis business is subject to permission, and, together with the licensing of the funds clearing business (Section 10 below), it is one of the categories with the heaviest entry regulation.

However, permission is not required where the scale and manner of the business fall under the cases specified by competent ministerial ordinance, taking into account the number of entrusting financial institutions and other matters (same Article, proviso).

(3) What are the main regulations?

- permission (JPSA Article 63-23) and criteria for permission (JPSA Article 63-25)
- prohibition of name lending (JPSA Article 63-26)
- restriction on business (JPSA Article 63-27)
- prohibition of entrustment and the like (JPSA Article 63-28)
- business method statement (JPSA Article 63-29)
- appropriate management of information (JPSA Article 63-30)
- duty of confidentiality and the like (JPSA Article 63-31)
- authorization of changes to the articles of incorporation or business method statement (JPSA Article 63-32) and permission for changes to the category of business (JPSA Article 63-33)
- reports (JPSA Article 63-34), on-site inspection (JPSA Article 63-35), business improvement order (JPSA Article 63-36) and revocation of permission (JPSA Article 63-37)

Since the business handles the transaction information of more than one financial institution, the appropriate management of information and the duty of confidentiality are at the core of the regulation.

(4) Which providers have obtained permission?

According to the list of permitted exchange transaction analysis business operators published by the FSA, three providers have obtained permission (as of May 29, 2024).

Permission number	Date of permission	Name	Shareholder
Commissioner of the FSA (Kawase-Bunseki) No. 1	December 19, 2023	SCSK RegTech Edge (SCSK RegTech Edge 株式会社)	SCSK Corporation, 100%
Commissioner of the FSA (Kawase-Bunseki) No. 2	January 31, 2024	Bank Business Factory Co.,Ltd.	Seven Bank, Ltd., 100%
Commissioner of the FSA (Kawase-Bunseki) No. 3	May 29, 2024	Cooperation agency for Anti-Money Laundering (CAML)	Japanese Bankers Association, 100%

The shareholders are as published by each company in its corporate profile. In each case a single parent holds the whole of the capital, and a financial group, a system vendor and an industry association are respectively behind the three operators.

10 Funds Clearing Business

(1) What kind of business is the funds clearing business?

It is the business of assuming, for the purpose of clearing, obligations arising from Kawase Torihiki between banks and the like, by means of assumption of obligation, novation or other methods. The clearing of interbank settlement through the Zengin Data Telecommunication System falls under it.

JPSA Article 2, Paragraph 23 defines "funds clearing business" as conducting, as a business, the assumption, for the purpose of clearing claims and obligations relating to Kawase Torihiki, by means of assumption of obligation, novation or other methods, of obligations arising from Kawase Torihiki **between banks and the like**. A "funds clearing institution" means a person who has obtained the licence under Article 64, Paragraph 1 (same Article, Paragraph 24).

"Banks and the like" here means banks, long-term credit banks, Shinkin banks, federations of Shinkin banks, labour banks, federations of labour banks, credit cooperatives, federations of cooperatives, agricultural cooperatives, federations of agricultural cooperatives, fishery cooperatives, federations of fishery cooperatives, fishery processing cooperatives, federations of fishery processing cooperatives, the Norinchukin Bank and the Shoko Chukin Bank (same Article, Paragraph 32). **Funds transfer service providers are not included.**

(2) Is a licence required?

Yes. The funds clearing business may not be conducted except by a person who has obtained the **licence** of the Prime Minister (JPSA Article 64, Paragraph 1). This is the heaviest entry regulation under the JPSA.

However, this provision does not apply to banks and the like or to the Bank of Japan (same Article, Paragraph 2).

(3) What are the main regulations?

- licence (JPSA Article 64), application for licence (Article 65), criteria for licence (Article 66) and grounds for disqualification of directors and the like (Article 67)
- restriction on business (JPSA Article 69). A funds clearing institution may not conduct business other than the funds clearing business and business incidental thereto, except where it obtains the approval of the Prime Minister
- entrustment of part of the funds clearing business (JPSA Article 70) and business method statement (Article 71)
- measures to ensure the proper performance of the funds clearing business (JPSA Article 72) and settlement of unsettled obligations (Article 73)
- duty of confidentiality and the like (JPSA Article 74) and prohibition of discriminatory treatment (Article 75)
- authorization of changes to the articles of incorporation or business method statement (Article 76), books and documents (Article 78), reports (Article 79), on-site inspection (Article 80), business improvement order (Article 81) and revocation of licence (Article 82)
- authorization of dissolution and the like (Article 83), consultation with the Minister of Finance (Article 84) and hearing of the opinion of the Bank of Japan (Article 86)

Because the function is at the core of the financial system, the concurrent conduct of other business is in principle prohibited, discriminatory treatment is prohibited, and the Minister of Finance and the Bank of Japan are involved in the procedures.

(4) Which providers have obtained a licence?

According to the list of funds clearing institutions published by the FSA, one institution has obtained a licence, the Japanese Banks' Payment Clearing Network (Zengin Net) (as of February 15, 2021).

(5) What are the transitional measures?

A person who was conducting the funds clearing business at the time of entry into force of the JPSA (excluding banks and the like and the Bank of Japan) was permitted to conduct the funds clearing business for six months from the date of entry into force without obtaining a licence (JPSA Supplementary Provisions Article 15, Paragraph 1). During that period, the person is deemed to be a funds clearing institution and the provisions on grounds for disqualification of directors, the duty of confidentiality, books and documents, on-site inspection, business improvement orders and orders of abolition apply (same Article, Paragraph 2).

(6) Do card networks fall under the funds clearing business?

Card brand operators settle the claims and obligations between issuers and acquirers on a net basis. Functionally this is clearing, and the question may arise whether this falls under the funds clearing business. Examined against the requirements of the provision, three requirements are in issue.

First, it must be the "clearing of claims and obligations relating to **Kawase Torihiki**". As described in Section 2 above, credit card transactions have been treated in Japan as not falling under Kawase Torihiki. Accordingly, clearing by a credit card brand operator lacks this requirement. On the other hand, as described in Section 3(5) above, the interpretation of the government is not clear as to whether bank debit card transactions fall under Kawase Torihiki, and if they are treated as falling under Kawase Torihiki, this requirement may be satisfied.

Second, the obligations must be those arising "**between banks and the like**". The issuers and acquirers of credit cards in Japan are for the most part non-bank financial institutions (Sections 2(3) and 2(4) above). The clearing of obligations arising between non-banks lacks this requirement because the counterparties are not banks and the like. By contrast, for bank debit cards the issuer is limited to banks (Section 3(4) above), and where the acquirer is also a bank, both parties may be banks and the like.

Third, the institution must "assume obligations by means of assumption of obligation, novation or other methods". If it merely performs the calculation work of netting and the exchange of information and does not itself assume obligations, this requirement is lacking.

Accordingly, whether a card network falls under the funds clearing business turns on three points: (i) whether the transactions concerned fall under Kawase Torihiki, (ii) whether the parties are banks and the like, and (iii) whether the clearing entity is structured so as to assume obligations itself. For credit cards, (i) and (ii) are ordinarily lacking, and the issue is unlikely to arise. For brand settlement of bank debit cards, if (i) were treated as falling under Kawase Torihiki, (ii) and (iii) would require examination.

There appears to be no published government material addressing head-on whether card networks fall under the funds clearing business. In practice, it would be appropriate to make an inquiry to the FSA concerning the particular scheme.

It should also be noted that, since JPSA Article 2-2 provides that certain collection services fall under Kawase Torihiki (Section 1(3) above), the scope of Kawase Torihiki is broader than before. Where cross-border collection services are carried out among many parties that are banks and the like, and the clearing is undertaken by a third party by means of assumption of obligation, there is room for the requirements of the funds clearing business to be satisfied. As a consequence of the expansion of the scope of Kawase Torihiki, the applicability of the funds clearing business also needs to be re-examined.

11 Laws and Regulations That Apply in Common

In addition to the business laws, the following laws and regulations apply in common to the business categories described in Sections 2 to 10 above. Each Section above sets out only those matters specific to the business category concerned, so the common matters are collected here.

(1) Act on the Protection of Personal Information

Payment services handle names, addresses, dates of birth, account numbers, card numbers, transaction histories, location information and the like, so the obligations of a business operator handling personal information apply: specification and notification or public announcement of the purpose of use, security control measures, supervision of contractors, restriction on provision to third parties, public announcement concerning retained personal data, response to requests for disclosure, correction and suspension of use, and reporting and notification of leakages.

Points specific to payment service providers include the following.

- Copies of identification documents and the like obtained in the verification at the time of transaction under the Act on Prevention of Transfer of Criminal Proceeds must be retained as verification records for seven years (Article 6, Paragraph 3 of that Act), and in relation to the duty to endeavour to erase data under the Act on the Protection of Personal Information, retention required by law takes precedence.
- The types of identification documents and the scope of information obtained should be designed so as not to obtain information that may constitute special care-required personal information.
- Where transaction histories are used for marketing or credit screening, the purpose of use must be specified and the provision to third parties or joint use must be organised. For credit cards, the Installment Sales Act provides for the provision of information to designated credit bureaus and prohibits its use for purposes other than those intended (JISA Article 35-3-59), and this must be considered together with the Act on the Protection of Personal Information.
- Where data are transferred to contractors or group companies outside Japan, the restriction on provision to third parties in foreign countries applies. In cross-border payment schemes, the relationship with the cross-border transmission of identification matters under the notification obligation (the travel rule) must be organised.

(2) Act against Unjustifiable Premiums and Misleading Representations

Point programs, cash-back and membership benefits may constitute the provision of premiums. Representations of fees, interest rates and reward rates are subject to the regulation of representations that mislead consumers into believing terms are more advantageous than they are.

(3) Act on Specified Commercial Transactions

This applies where services are provided by means of mail order sales, telemarketing sales and the like. For credit cards and charge cards, the Installment Sales Act and this Act are interrelated, for example in the obligation to investigate solicitation in individual credit purchase intermediation.

(4) Act on Regulation of Transmission of Specified Electronic Mail

For the sending of e-mail to users, opt-in consent, display of sender information and clear indication of the method of opting out are required.

(5) Act on Prohibition of Private Monopolization and Maintenance of Fair Trade

Merchant fees, interchange fees, restrictions under brand rules, and refusals of interconnection may be in issue. For the funds clearing business, JPSA Article 75 prohibits discriminatory treatment. For frameworks such as the

exchange transaction analysis business, where more than one financial institution conducts business jointly, the scope of information exchange and the manner of the joint conduct need to be organised.

(6) Consumer Contract Act

The regulation of unfair clauses applies to exemption clauses, liquidated damages clauses and restrictions on the right to terminate in terms and conditions of use.

(7) Foreign Exchange and Foreign Trade Act

This applies to cross-border transfers of funds and to transfers of funds between residents and non-residents. Reporting obligations for payments and the like, notification and reporting of capital transactions, and the prohibition of, or permission requirement for, payments under economic sanctions (Articles 16 and 16-2) are in issue.

As to the obligation of identification, Article 18 requires "banks and the like" (banks and other financial institutions specified by Cabinet Order) to verify the identification matters of a customer when conducting Kawase Torihiki relating to a payment from Japan to a foreign country or a payment to or from a non-resident (specified exchange transactions), and Article 18-3 provides for the obligation to prepare and retain identification records.

Article 16-2 provides for "banks and the like" separately from funds transfer service providers (JPSA Article 2, Paragraph 3) and electronic payment instrument exchange service providers and the like. Which provisions apply to which business category needs to be confirmed against the Act and its Enforcement Order.

The exchange transaction analysis business has as its content the analysis of whether a transaction falls under Kawase Torihiki relating to payments listed in each item of Article 17 of this Act (Section 9(1), Item 1 above).

For details, please refer to Ryu Nakasaki, *Detailed Explanation of the Foreign Exchange and Foreign Trade Act and Trade-Related Laws*, 9th edition (2026) (<https://www.amazon.co.jp/dp/B0HCMTQQF7>).

(8) Act on Submission of Statement of Overseas Money Transfers for Purpose of Securing Proper Domestic Taxation

Financial institutions owe an obligation to submit statements concerning overseas money transfers. Collection of users' Individual Numbers and the like is required.

(9) Act on the Use of Numbers to Identify a Specific Individual in the Administrative Procedure

Restrictions on the acquisition, use, retention and provision of Individual Numbers, and security control measures, apply. Where Individual Numbers are acquired in order to submit statements under the Act above, they must be handled within the scope of the purpose of use provided for in that Act.

(10) Interest Rate Restriction Act and Act Regulating the Receipt of Contributions, the Receipt of Deposits, and Interest Rates

The regulation of maximum interest rates applies to cards that also have a loan function. In addition, funds transfer service providers and prepaid payment instrument issuers must take care that funds received from users are not construed as "deposits" (Article 2 of the latter Act). One of the purposes of the retention regulation for funds transfer service providers is also stated to be the possibility of conflict with this regulation on the acceptance of deposits (Section 4(5) above).

(11) Banking Act and Payment Services Act (regulation of Kawase Torihiki)

For every business category, if the service provided falls under Kawase Torihiki, a banking licence or FTSP registration is required (Section 1 above). For prepaid payment instruments, electronic payment instruments and crypto assets alike, many business operators design their schemes so as not to fall under Kawase Torihiki.

(12) Government rules and guidelines and self-regulation

- Rules and guidelines of METI and the self-regulatory rules of the certified installment sales association (Japan Consumer Credit Association) (credit cards)
- Supervisory guidelines and the Comprehensive Guidelines of the FSA (Volume 3: Financial Companies; 5 Prepaid Payment Instrument Issuers, 14 Funds Transfer Service Providers, 16 Crypto Asset Exchange Service Providers, 17 Electronic Payment Instrument Exchange Service Providers, 18 Electronic Payment Instrument and Crypto Asset Service Intermediaries)
- The FSA's "Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism"
- Self-regulatory rules of the Japan Payment Service Association (prepaid payment instruments and funds transfer business) and of the Japan Virtual and Crypto assets Exchange Association (crypto assets)
- "Implementation Plan For Enhancement of Security Regarding Credit Card Transactions" of the Credit Transaction Security Committee of Japan

12 Relationship with the Act on Prevention of Transfer of Criminal Proceeds

Many business operators providing payment services fall under the "specified business operators" of the Act on Prevention of Transfer of Criminal Proceeds and owe the obligation of verification at the time of transaction and other obligations. Which operators are specified business operators differs by business category, and even within the same payment flow, those who owe the obligations and those who do not are divided.

For details of the Act on Prevention of Transfer of Criminal Proceeds, please refer to Ryu Nakasaki, *Detailed Explanation of the Act on Prevention of Transfer of Criminal Proceeds, 9th edition (2026): The Fight against Organized Crime* (<https://www.amazon.co.jp/dp/B0HD7TCZ2G>). The description in this Section follows the organisation of that book.

(1) Which operators are specified business operators?

Business operator	Specified business operator	Basis (Article 2, Paragraph 2)
Banks and the like	Yes	Items 1 to 15, Item 31
Issuers that filed the notification for High-Value Electronically Transferable Prepaid Payment Instruments	Yes	Item 30-2
Other prepaid payment instrument issuers	No	—
Funds transfer service providers	Yes	Item 31
Electronic payment instrument exchange service providers	Yes	Item 31-2
Electronic payment handling service providers (registered)	Yes	Item 31-3
Shinkin bank electronic payment handling service providers	Yes	Item 31-4
Credit cooperative electronic payment handling service providers	Yes	Item 31-5
Crypto asset exchange service providers	Yes	Item 32
Credit card issuers	Yes	Item 40
Acquirers and sub-acquirers (PSPs)	No	—
Electronic payment instrument and crypto asset service intermediaries	No	—
Exchange transaction analysis business operators	No	—

Funds clearing institutions	No	—
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Item 40 makes a specified business operator of a person conducting the business of delivering or granting credit cards and the like to a user, delivering the amount equivalent to the price of the goods or the consideration for the services to the seller or service provider when the user presents or notifies the card and purchases goods or receives services, and receiving from the user the aggregate amount of such prices or considerations by a predetermined time or an amount calculated by a predetermined method for each predetermined period. In other words, it covers those conducting issuing business, and **acquiring-only operators do not fall under it**. This is why the anti-money laundering regulations in Japan do not obligate acquirers nor sub-acquirers to conduct customer due diligence of merchants or their representatives (Section 2(6)c above). They do not owe reporting obligations of suspicious transactions either.

As for prepaid payment instrument issuers, only a person that has filed the notification under JPSA Article 11-2, Paragraph 1 in order to issue a High-Value Electronically Transferable Prepaid Payment Instrument becomes a specified business operator (Section 5(8) above). Accordingly, by setting a validity period of six months, or by making the instrument usable only in transactions that constitute commercial transactions for the user, an issuer can keep the instrument outside this category.

Intermediaries, exchange transaction analysis business operators and funds clearing institutions are none of them specified business operators. For an intermediary, the verification at the time of transaction is conducted by the entrusting electronic payment instrument exchange service provider or crypto asset exchange service provider. An exchange transaction analysis business operator remains in the position of conducting, upon entrustment by financial institutions, the analysis necessary for the judgment on filing a suspicious transaction report (Section 9(1), Item 3 above).

(2) What obligations do specified business operators owe?

- verification at the time of transaction (Act on Prevention of Transfer of Criminal Proceeds Article 4)
- preparation and retention of verification records (Article 6). Verification records must be retained for seven years from the date of termination of the contract relating to the specified transaction and the like
- preparation and retention of transaction records and the like (Article 7). Transaction records and the like must be retained for seven years from the date of the transaction
- reporting of suspicious transactions (Article 8)
- measures to carry out verification at the time of transaction and the like accurately (Article 11; establishment of internal systems)

(3) What must be confirmed when concluding correspondent banking contracts and the like?

Confirmation obligations upon concluding continuous or repeated contracts with foreign providers are provided for by business category, for Kawase Torihiki, for the transfer of electronic payment instruments and for the transfer of crypto assets.

Subject	Obligor	Provision	Method of confirmation
Kawase Torihiki (correspondent banking contracts)	Specified financial institutions (specified business operators under Article 2, Paragraph 2, Items 1 to 15 and Item 31)	Article 9; Regulation Article 29	Regulation Article 28
Transfer of electronic payment instruments	Electronic payment instrument exchange service providers	Article 10-2; Regulation Article 31-3	Regulation Article 31-2
Transfer of crypto assets	Crypto asset exchange	Article 10-4; Regulation	Regulation Article 31-5

	service providers	Article 31-6	
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The matters to be confirmed are, in each case, (i) that the counterparty has established a system conforming to the standards necessary to appropriately carry out measures equivalent to verification at the time of transaction, preparation and retention of records and reporting of suspicious transactions, and (ii) that the counterparty has not concluded a contract of the same kind with a foreign provider of the same kind that is not in a state of being supervised (confirmation that the counterparty is not a shell bank).

The standards specified by competent ministerial ordinance are (i) that the counterparty has, in its country of location or in a foreign country other than its country of location, the facilities necessary to carry out the equivalent measures and a manager supervising the implementation of those measures, and (ii) that it is in a state of being appropriately supervised, in respect of those measures, by the supervisory authority of its country of location or of that foreign country.

The method of confirmation is to receive a declaration from the counterparty, or to review information published on the internet by the counterparty or by a foreign authority corresponding to a supervisory authority. A method using a commercial database compiling such information is also permitted.

As for Kawase Torihiki, where financial institutions have established, using the Relationship Management Application (RMA) function of SWIFT, a relationship under which they permit each other to exchange messages such as instructions for the transfer of funds on the SWIFT network, the requirement is also considered to be satisfied. However, where the RMA counterparty is a business operator that does not conduct Kawase Torihiki, it cannot be evaluated that a "contract to conduct Kawase Torihiki continuously or repeatedly" has been concluded, and the requirement is not satisfied.

Further, Articles 9, 10-2 and 10-4 contain no exemption for intra-group transactions. The application is not denied merely because the counterparty is a wholly owned group company.

(4) How is the notification obligation (the travel rule) imposed?

Subject	Provision	Regulation specifying the matters to be notified
Foreign exchange transactions	Article 10	Regulation Article 30
Transfer of electronic payment instruments	Article 10-3	Regulation Article 31-4
Transfer of crypto assets	Article 10-5	Regulation Article 31-7

For transfers of electronic payment instruments and crypto assets, all transfers are covered regardless of the amount and the type. The matters to be notified include the name of the requesting customer and of the receiving customer, the residence or the location of the head office or the customer identification number, and the identifier relating to the transfer (what is called a blockchain address) or a code sufficient to identify it.

Since the counterparties covered are limited to registered providers or foreign providers equivalent thereto, transfers to individuals and unregistered providers are not covered. Specified trust beneficial interests among electronic payment instruments are also excluded.

For electronic payment instruments, where the receiving customer entrusts the management, as a customer, to a foreign electronic payment instrument exchange service provider located in a country or region designated by notification of the Ministry of Finance and the FSA, the notification obligation is exempted (Article 10-3, Paragraph 1; Enforcement Order Article 17-2). In short, the obligation is exempted in relation to countries and regions that have not implemented the travel rule.

(5) What should be noted when designing a payment scheme?

Within the same payment flow, those who owe the obligations and those who do not are divided. For credit cards, only the issuer is a specified business operator, and acquirers, sub-acquirers and merchants are not. For stablecoins, the applicable laws differ between the issuer (a bank, an FTSP or a specified trust company) and the intermediary (an electronic payment instrument exchange service provider or an electronic payment handling service provider), and an intermediary is not a specified business operator in the first place. For prepaid payment instruments, the conclusion turns on whether the instrument falls under the High-Value Electronically Transferable type.

The FATF Recommendations include in the definition of financial institutions covered by the Recommendations not only entities conducting the issuing of credit cards but also those conducting their management. In the US, anti-money laundering obligations are imposed on international card brands under the Bank Secrecy Act, and the international card brands impose anti-money laundering obligations on acquirers and others through brand rules. In Europe, under the Payment Services Directive, acquirers of credit cards and payment agents are also made subject to the authorisation of payment service providers and are subject to obligations such as customer due diligence, as I understand it. If Japan were to receive an indication in a mutual evaluation or the like from the FATF that its response is insufficient, it would be rather difficult to rebut. Business operators should be careful.

It should be noted, in relation to the acquiring of international brand cards, that (i) the international brands impose anti-money laundering obligations on Japanese acquirers as well, and (ii) the Installment Sales Act requires investigation of merchants and requires measures such as the suspension of transactions with, and registration with the certified installment sales association of, merchants suspected of fraud or receiving many complaints; so in the sense of excluding illegal merchants, there are areas in which the card industry has made progress.

References

The following books by the author deal with the laws covered in this newsletter.

- Ryu Nakasaki, *Detailed Explanation of the Act on Specified Commercial Transactions and the Installment Sales Act* (Kinza, August 2021, 596 pages)

<https://www.amazon.co.jp/dp/432213842X>

A commentary on the Installment Sales Act, which regulates credit cards and charge cards. Part 2 covers the Installment Sales Act, including comprehensive credit purchase intermediation, individual credit purchase intermediation, business operators concluding contracts for the handling of credit card numbers (merchant contract business), appropriate management of credit card numbers, designated credit bureaus, prepaid specified transactions, the certified installment sales association, dates of entry into force and transitional provisions, and penal provisions. It corresponds to Section 2 of this newsletter.

- Ryu Nakasaki, *Detailed Explanation of the Act on Prevention of Transfer of Criminal Proceeds, 9th edition (2026): The Fight against Organized Crime* (Kudan Financial IT Institute LLC, August 2026, 534 pages)

<https://www.amazon.co.jp/dp/B0HD7TCZ2G>

A commentary on the AML/CFT measures required of specified business operators. It covers the categories of specified business operators, the requirements and methods of verification at the time of transaction, verification records and transaction records, reporting of suspicious transactions, confirmation upon concluding correspondent banking contracts, the notification obligation (the travel rule) and the establishment of internal systems. The description of the Act on Prevention of Transfer of Criminal Proceeds in this newsletter follows the organisation of that book.

- Ryu Nakasaki, *Detailed Explanation of the Foreign Exchange and Foreign Trade Act and Trade-Related Laws, 9th edition (2026)* (August 2026, 695 pages)

<https://www.amazon.co.jp/dp/B0HCMTQQF7>

A commentary on the Foreign Exchange and Foreign Trade Act and trade-related laws. It covers methods of identification, inward direct investment, reporting obligations for capital transactions, export controls on goods, customs-related matters and other related laws. It corresponds to the application of the Foreign Exchange and Foreign Trade Act to cross-border transfers of funds and transfers between residents and non-residents (Section 11 of this newsletter).

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