

Tokyo Financial Award 2023

**Supplemental materials for
applicants of the Financial
Innovation Category**

Introduction

This document was created to help companies understand Japanese financial market trends. It explains major topics in recent years, including related legislative amendments, regarding “Deposits/Withdrawals”, “Payments”, “Asset management”, “Insurance”, “Financing”, “DX/infrastructure”, and other themes in the Japanese financial markets.

We do not intend to encourage you to apply for the Tokyo Financial Award (Financial Innovation Category) in accordance with the contents of this document. In addition, there is no special evaluation for such applications during the examination.

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Themes shared across all financial services

1. Expansion of impact investing

- ▶ Impact investing, focused on generating social and environmental benefits, is gaining ground

Outline

- ▶ What is impact investing:
 - ▶ Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. *1
 - ▶ 4 key elements of impact investing

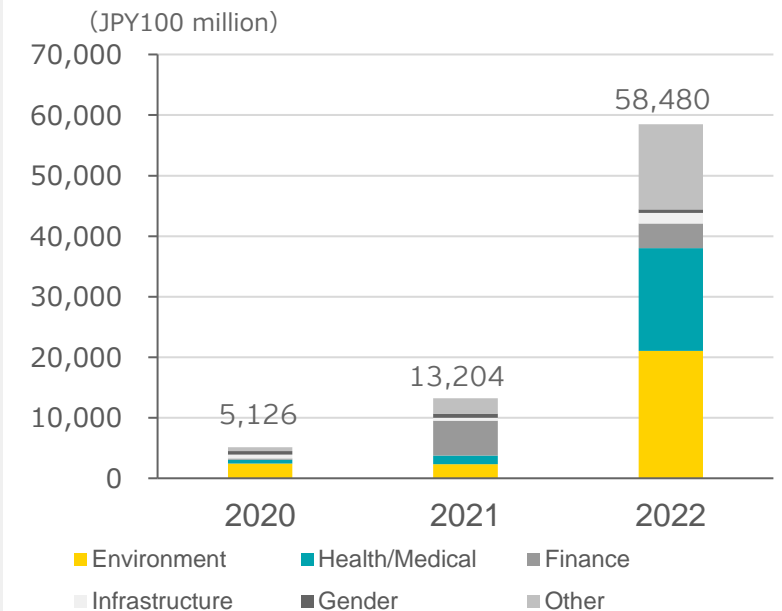
Element	Description
Intentionality	Whether the investor is creating a positive impact with their capital
Financial return	Whether the objective of the investment includes financial return alongside impact
Range of asset classes	Whether the investments are limited to certain assets
Impact measurement	Whether the investor is committed to understand and measure the social and environmental performance of underlying investments

- ▶ Becoming more widespread
 - ▶ FSA establishes “Working Group on Impact Investment” in October 2022*2
 - ▶ “Promotion of impact investment” included in basic policy of the Japanese government in 2023*3

Back ground

- ▶ In ESG investment, investments are individual, but it is difficult to clearly measure to what extent those investments lead to challenges being resolved via reforms in technology implementation and business models. Hence, there is a growing demand for more individual and transparent investments. The FSA Working Group reports that impact investment is uniquely suited for supporting startups that specialize in specific businesses and strive for business growth, and it is expected to further foster innovation.*2

Impact investing trends in Japan (estimates) *1



(Notes)

*Figures are aggregated based on responses to surveys conducted by GSG Domestic Advisory Committee of financial institutions and institutional investors and are not actual figures (prior period end figures of respondents)

*Survey respondents: Institutional investors, financial institutions

*Survey responses: 75 (2020), 77 (2021), 46 (2022)

*The year represent when the committee published results

- ▶ According to the committee, impact investing is popular in the areas of environment/medical and those areas are expected to experience more impact investing

Sources:

*1 GSG Domestic Advisory Committee, The Current State and Challenges of Impact Investing in Japan (2020-2022) , <https://www.siif.or.jp/publication/>

*2 FSA, Working Group on Impact Investment Report <https://www.fsa.go.jp/singi/impact/siryu/20230529/01.pdf>

*3 Cabinet Office, Basic Policy on Economic and Fiscal Management and Reform 2023 (tentative name) (draft) , https://www5.cao.go.jp/keizai-shimon/kaigi/minutes/2023/0607/shiryo_01.pdf

Themes shared across all financial services

2. Opening of the Zengin System to the Funds Transfer Service providers

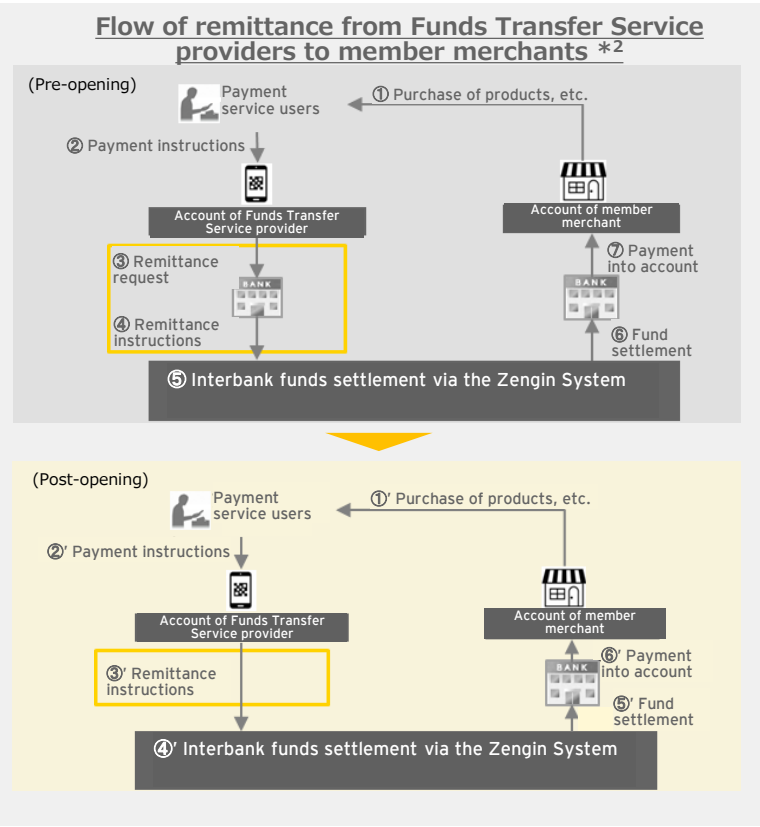
- ▶ The Japanese Bankers Association (JBA) expanded the eligibility for participation in the Zengin system to Funds Transfer Service providers on 7 October 2022.

Outline

- ▶ The Japanese Bankers Association (JBA) opened its Zengin system (a fund settlement system that relays remittance between different financial institutions) to Funds Transfer Service providers that offer smartphone-based money transfer services on 7 October 2022. *1
- ▶ When transferring a purchase payment of payment service user to the account of a member merchant, Funds Transfer Service providers:
 - Pre-opening: It was required to pay a handling fee to the bank to request remittance instructions (③④)
 - Post-opening: It will be possible to make remittance instructions directly to payee's account via Zengin system instead of via the bank (③').
- ▶ Features of the Zengin System
 - A network in which almost all, more than 1,000, depository institutions in Japan participate
 - High level of security and reliability, with no online transaction stoppages during operation hours since the system started in 1973

Back ground

- ▶ Conventionally, the participation was limited only to depository institutions.
- ▶ In 2020, the Fair Trade Commission pointed out the closed nature of the system.



Sources:

- *1 Japanese Banks' Payment Clearing Network, Announcement on broadening eligibility for joining Zengin-net, https://www.zengin-net.jp/announcement/pdf/announcement_20221007.pdf
- *2 Fair Trade Commission, Report on Cashless Payment Services using QR Codes, etc., https://www.jftc.go.jp/houdou/pressrelease/2020/apr/chouseika/200421_houkokusyo_2.pdf

Themes shared across all financial services

3. Relaxation of restrictions on investments by financial institutions in other industries and their business scope

- ▶ The Insurance Business Act has been revised to relax restrictions on investments in other industries by insurance companies
- ▶ The Banking Act has been revised to relax restrictions on investments in other industries by banks and restrictions on their scope of business

Outline	<ul style="list-style-type: none"> ▶ The enactment of the revised Insurance Business Act in April 2020 enabled insurance companies to invest in IT companies, etc. related to the insurance business to hold 100 percent of their voting rights. *1 ▶ The enactment of the revised Banking Act in May 2021 eased restrictions on banks' investments in venture business companies, turnaround companies, business succession companies, and community revitalization companies through specialized investment firms. As a result, banks can now invest in in community revitalization companies to hold up to 100 percent of their voting rights. *2
Back ground	<ul style="list-style-type: none"> ▶ The business environment for banks is marked by severe conditions, such as a declining working-age population, a decline in demand for funding, and business ventures into unfamiliar financial industries. As a result, banks must diversify their sources of revenue to weather the storm. ▶ In 2019 and 2020, the Financial System Council, hosted by the Financial Services Agency, determined a review was necessary regarding the regulation of the business scope of traditional financial institutions in light of social progress in the information utilization. It was reported that deregulation of the requirements for venture business companies is worth consideration with a view to supporting the development of a wide range of new business fields in various business categories through investment by banks and banking groups. *3*4

Review of restrictions on business scope *5

	Bank	Advanced Banking Service Company	Dependent Services Company
Sale of applications/systems	◎	◎	×
Data analysis/marketing/advertising	◎	◎	×
Human resources	◎	◎	×
Consulting/matching	◎	-	-
Fintech	-	○	-
Regional trading company	-	○	-
ATM Maintenance/inspection	-	◎	×
Printing/binding	-	-	○
Motor vehicle operation/maintenance/inspection	-	-	○

Legend
 ◎: Revisions allow for provision
 ○: Provision conventionally allowed
 ×: Revisions disallow provision

Sources:

*1 FSA, Bill related to the Financial Services Agency at the 198th Diet Session, <https://www.fsa.go.jp/common/diet/198/index.html>

*2 FSA, Bill related to the Financial Services Agency at the 204th Diet Session, <https://www.fsa.go.jp/common/diet/204/index.html>

*3 FSA, Financial System Council, Summary points from the "Report on the development of regulations for financial institutions regarding data utilization" by the Study Group on the Financial System, https://www.fsa.go.jp/singi/singi_kinyu/tosin/20190116/gaiyou.pdf

*4 FSA, Financial System Council, Publication of report on banking system working group, https://www.fsa.go.jp/singi/singi_kinyu/tosin/20201222.html

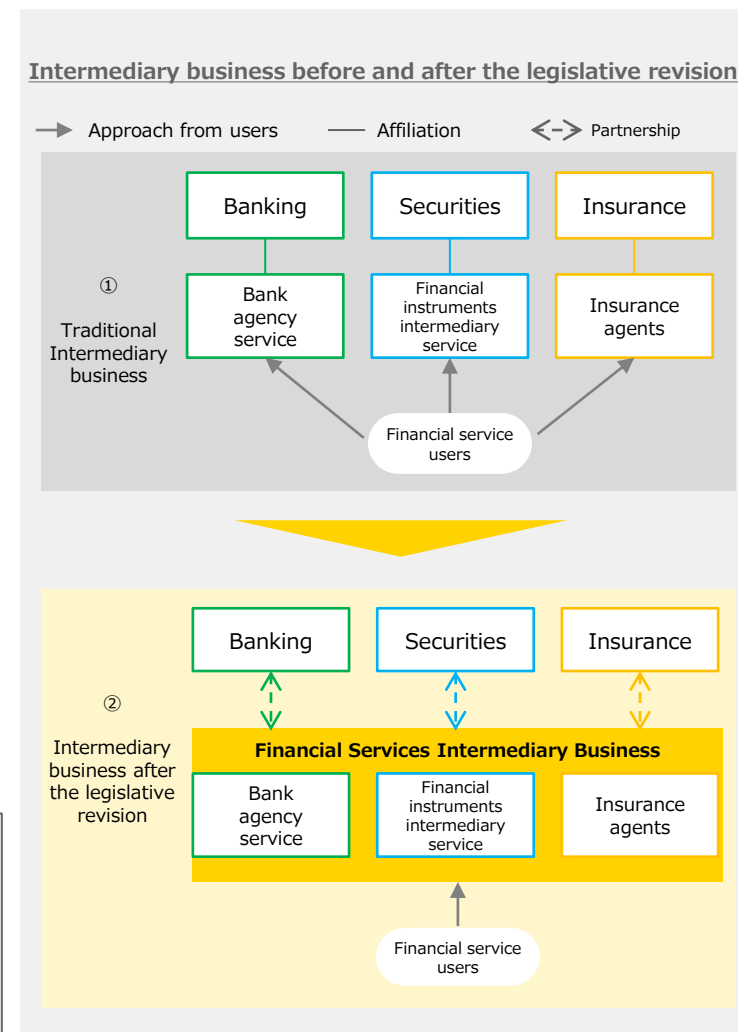
*5 FSA, Explanatory materials on the bill regarding the partial revision of the Banking Act and other acts, in order to improve financial functions and stability by adapting to social changes caused by the COVID-19 pandemic, <https://www.fsa.go.jp/common/diet/204/01/setsumei.pdf>

Themes shared across all financial services

4. Launch of the Financial Services Intermediary Business

- ▶ In June 2020, amendments to the law concerning the creation of intermediaries that can provide one-stop service in multiple industries (banking, securities, and insurance) *1 were enacted, and went into effect in November 2021 (seven companies registered as of June 2023) *2

Outline	<ul style="list-style-type: none"> ▶ Launch of the "Financial Services Intermediary Business" The "Financial Services Intermediary Business" refers to the intermediary business that, with a single registration (license), provides a one-stop service for a wide variety of products and services offered in more than one industry sector and by many financial institutions. ▶ Products and services that the Financial Services Intermediary Business is expected to be able to offer: 			
		Banking	Securities	Insurance
	Available	Savings account, Mortgage loans	Government bonds, Listed stocks, Investment trusts	Personal accident insurance, Travel insurance, Golf insurance
Not available	Structured deposit	Unlisted stocks, Derivatives instruments	Variable insurance, Foreign currency denominated insurance	
	<ul style="list-style-type: none"> ▶ Example: SCSK Serviceware (BPO operator)*3 <ul style="list-style-type: none"> ▶ By registering as a financial services intermediary, SCSK was contracted for services by SBI Sumishin Net Bank, and commenced provision of a one-stop service that provides telephone support and back-office operations for housing loans - functions which were previously decentralized. Shortening of lead times and improvement of contract closing rates are expected 			
Back ground	<ul style="list-style-type: none"> ▶ Due to the need to obtain a license for each type of business, the number of intermediaries providing one-stop service for all banking, securities, and insurance to users was limited (Five companies as of March 2020). ▶ It has been difficult for financial service users to choose the most suitable one among various financial services, forcing them to experience inconvenience. 			



Sources:

*1 FSA, Act Partially Amending the Act on the Provision of Financial Services, etc. for Improvement of Convenience for and Protection of Users of Financial Services, <https://www.fsa.go.jp/common/diet/201/index.html>

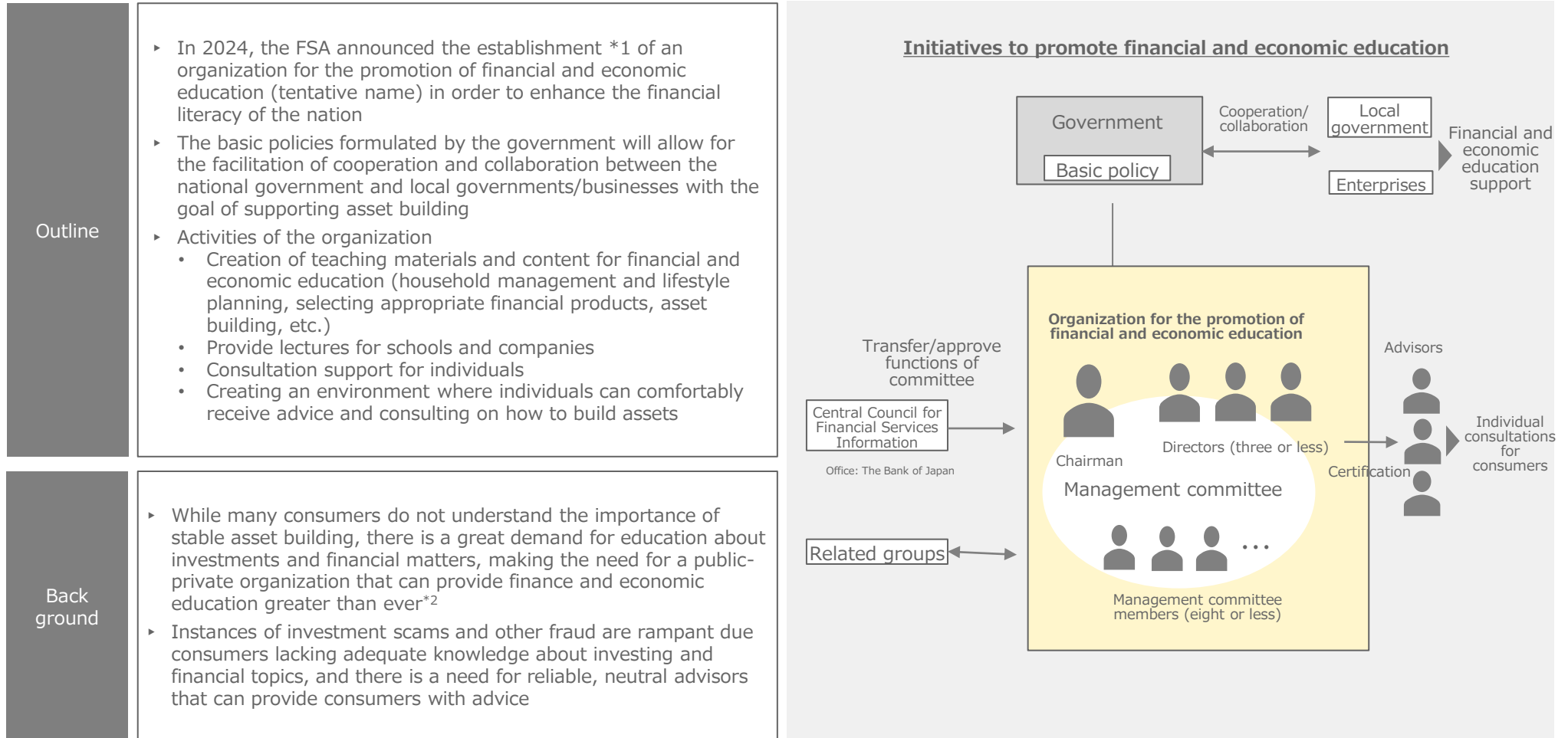
*2 FSA, List of licensed (registered) Financial Institutions: https://www.fsa.go.jp/menkyo/menkyoj/01_1kinsa.pdf

*3 SCSK ServiceWare, SCSK to provide SBI Sumishin Net Bank housing loan screening as a consigned company: <https://www.scskserviceware.co.jp/news/606/detail.html>

Themes shared across all financial services

5. Establishment of organization for the promotion of financial and economic education

- ▶ In 2024, the FSA announced the establishment of an organization for the promotion of financial and economic education (tentative name).



Sources:

*1 FSA, Explanatory materials on the Act Partially Amending the Financial Instruments and Exchange Act, <https://www.fsa.go.jp/common/diet/211/01/setsumeij.pdf>

*2 FSA, Reference materials, the 5th Financial System Council customer-oriented task force, https://www.fsa.go.jp/singi/singi_kinyu/kokyakuhoni_tf/siryoku/20221206/02.pdf

Deposits/Withdrawals

6. Increase of fees at ATMs and service counters of major banks

- ▶ In an effort to encourage customers to shift towards using online banking, MUFG Bank announced that beginning from October 2023 it will increase transfer fees for transactions which don't use online banking, such as in-bank counter services and ATMs

Outline	<ul style="list-style-type: none"> ▶ MUFG Bank announced that beginning from October 2023 it will increase transfer fees for in-bank counter services and ATMs. *1 <ul style="list-style-type: none"> • Large scale fee increases in particular for transfers to external banks ▶ Online banking fees remain unchanged for the time being ▶ Eyes are on other banks to see if they follow in the footsteps of major banks like MUFG in increasing fees for offline transfers
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Back ground	<ul style="list-style-type: none"> ▶ In recent years, banks are experiencing increasing costs due to operating payment systems and required personnel for money laundering countermeasures ▶ Online banking, however, has many merits for both banks and customers*2 <ul style="list-style-type: none"> • Banks: Reduction in administrative burdens/costs/risk of criminal acts • Customers: Simplification of sending/receiving money, streamlining management of fund transfers/capital ▶ By maintaining fees for online banking at prior levels, MUFG Bank is encouraging customers to utilize online banking more
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MUFG Bank transfer fee revisions (with external banks)					
			Pre-revision	Change	Post-revision
Service counters			JPY594	↗	JPY990
			JPY770		
In-network ATM	In-network cash card	<JPY 30,000	JPY209	↗	JPY275
		>JPY 30,000	JPY330	↘	JPY275
	Outside cash card	<JPY 30,000	JPY209	↗	JPY770
		≥JPY 30,000	JPY330		
	Cash	<JPY 30,000	JPY374	↗	JPY880
		≥JPY 30,000	JPY550		
Mitsubishi UFJ Direct (Individual online banking)		<JPY 30,000	JPY154	→	JPY154
		≥JPY 30,000	JPY220	→	JPY220
MUFG BizSTATION (Corporate online banking)*4		≥JPY 30,000	JPY484	→	JPY484
		<JPY 30,000	JPY660	→	JPY660

Sources:

*1 NHK, MUFG Bank to charge higher fees at counters and ATMs for transfers, <https://www3.nhk.or.jp/news/html/20230427/k10014050881000.html>

*2 Japanese Bankers Association, Introduction of examples to promote the use of company internet banking, https://www.fsa.go.jp/singi/shomen_oin/shiryu/20220407/01.pdf

*3 MUFG Bank, Fees for transfer, money exchange and foreign exchange will be revised, https://www.bk.mufg.jp/info/20230427_tesuuryou.html

*4 MUFG Bank, Transfer fee revisions and effects on EB services, https://www.bk.mufg.jp/houjin/info/info210901_eb.html

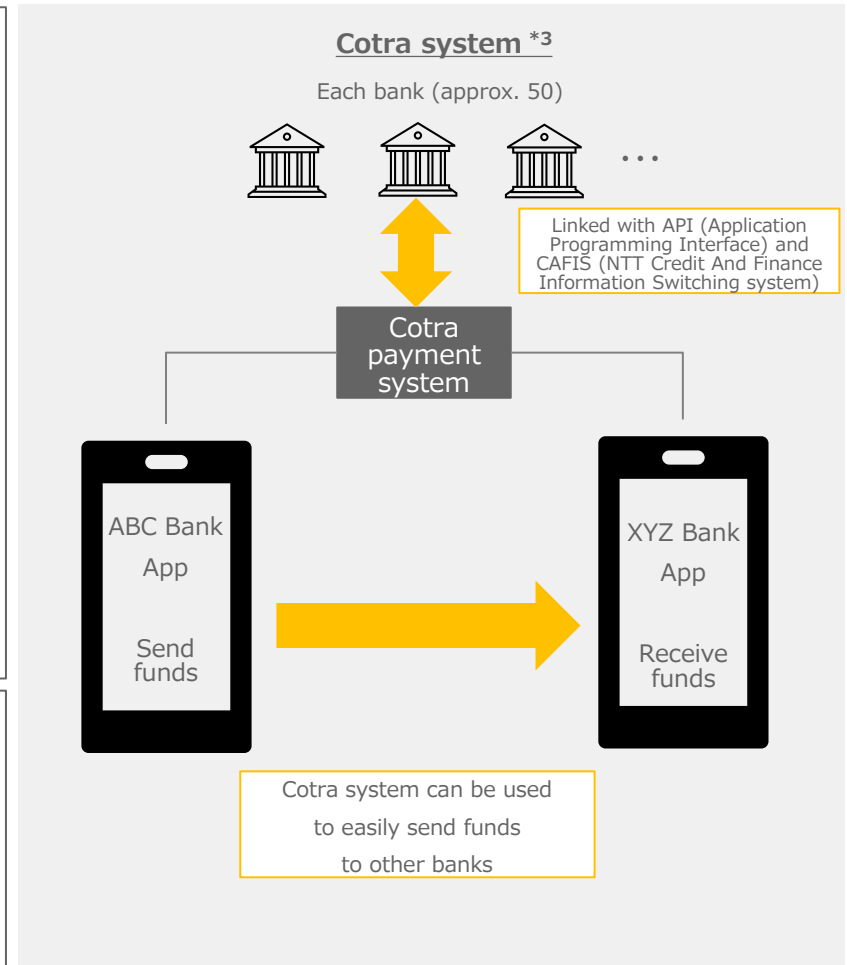
Deposits/Withdrawals

7. Commencement of Cotra service

- ▶ Cotra, an online service for transferring small amounts, began in October 2022 with the backing of major banks

Outline	<ul style="list-style-type: none">▶ Cotra, an online service allowing individuals to transfer small amounts, began in October 2022 with the backing of major banks (MUFG, SMBC, Mizuho, Resona)▶ Cotra is a large-scale service with approximately 50 major and regional banks currently participating, and allows customers with an individual account at any participating bank to send funds to another participating bank's account▶ Fund transfers can be made easily and cheaply online*1<ul style="list-style-type: none">• There is no need to provide the other party any account information, and transfers can be made with only a phone number• Transfers fees are free of charge or cheaper than the bank's current rates• Funds can also be sent via any application that is compatible with Cotra▶ An example use case of the service is illustrated below<ul style="list-style-type: none">• Bank transfers to other accounts• Splitting tabs with friends• Paying for purchases
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Back ground	<ul style="list-style-type: none">▶ With the release of the service, operations and management for sending funds from the application are simplified compared to prior versions of the service▶ Banks are able to reduce cash management costs which were historically large *2▶ Customers are able to greatly reduce transfer fees between different banks
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Sources:

*1 Cotra Ltd., COTRA website top page, <https://www.cotra.ne.jp/p2psevice/>

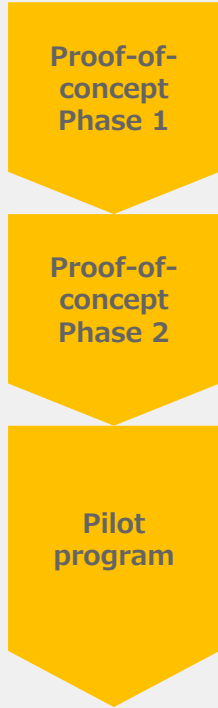
*2 NHK, COTRA launches money transfer services for individuals, <https://www.nhk.or.jp/shutoken/newsup/20221012b.html>

*3 Nikkei, Financial industry under pressure as small amount payment infrastructure COTRA launches in October, <https://xtech.nikkei.com/atcl/nxt/column/18/00001/07146/>

Payments

8. CBDC proof-of-concept experiment

- ▶ The Bank of Japan launched its proof-of-concept experiment (pilot program) for its central bank digital currency (CBDC) in April 2023. *1

Outline	<ul style="list-style-type: none">▶ The Bank of Japan is gradually promoting proof of concept experiments▶ It has engaged in R&D for a CBDC (indirect type)*2 that can be widely used by individuals and companies across Japan▶ Expected uses if general-purpose CBDC is implemented<ol style="list-style-type: none">① Payment method equivalent to cash for purchases ⇒Even if the general use of cash is assumed to diminish in the future, stable scales of value will still be introduced② Private payment service support ⇒Serve as a bridge among banks and various payment system operators, simplify conversions across various private currencies③ Establishment of a suitable payment system for a digital society ⇒Contribute to providing various CBDC-linked services by harnessing the creativity and efforts of private enterprises	<p>Experiment timeline *3</p>  <ul style="list-style-type: none">Proof-of-concept Phase 1 Create an experimental environment and test the core functions that establish CBDC has a legitimate payment method - issuance, distribution, and redemption (April 2021 to March 2022)Proof-of-concept Phase 2 Use the experimental environment from Phase 1 to add more functionality to CBDC and test feasibility of new features (April 2022 to March 2023)Pilot program Create an experimental system and verify technical feasibility of concepts that cannot be tested via a proof of concept. In addition, test technical and operational concepts by leveraging the technology and knowledge of private enterprises. (from April 2023)
Back ground	<ul style="list-style-type: none">▶ Against the backdrop of various industries accelerating their digitization, there is growing debate in Japan and overseas about the issuance of CBDC▶ Societal needs for CBDC may increase rapidly as technological innovation also hastens▶ In an effort to maintain the stability and efficiency of all payment systems, further preparations are necessary to appropriately address all future environmental changes	

Sources:

*1 BOJ, Central Bank Digital Currency Experiments, <https://www.boj.or.jp/paym/digital/dig230217b.pdf>

*2 General-purpose CBDC (indirect type) is one form of CBDC, in which a central bank indirectly issues/circulates a CBDC intended for a wide range of end users, including individuals and firms, through intermediaries such as private businesses. The other form is a wholesale CBDC, in which a central bank provides to limited counterparties mainly for large-value payments among financial institutions.

*3 BOJ, The Bank of Japan's Approach to Central Bank Digital Currency, <https://www.boj.or.jp/paym/digital/rel201009e.htm>

Payments

9. Efforts to commence issuance of stablecoin

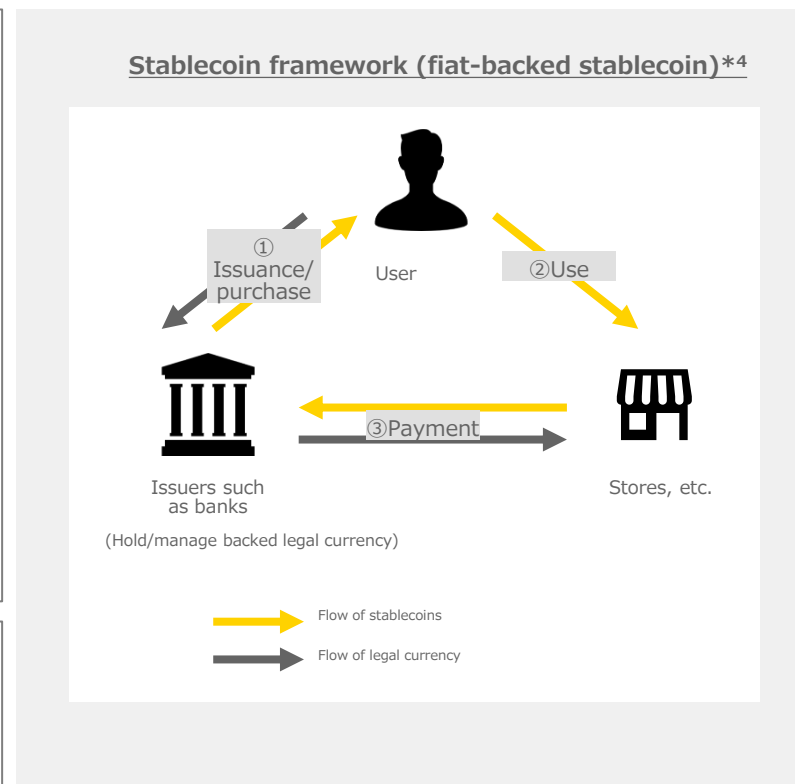
- ▶ The revised Payment Services Act came into effect in June 2023, making it possible to issue stablecoins in Japan in accordance with regulations

Outline

- ▶ Fiat-backed stablecoins have been defined as a valid electronic payment method under the revised Payment Services Act, making the issuance of stablecoins possible
- ▶ Fiat-backed stablecoins are a legal electronic payment method that have their value backed by a reserve or fiat currency
- ▶ Per the Payment Services Act, only banks, trust companies, and fund transfer service providers may issue stablecoins, and enterprises must register to be an issuer Domestic distributors of currency will also be obligated to protect the value of foreign-issued stablecoins*¹
- ▶ The benefits of stablecoins include low transfer fees and fast payment processing
- ▶ Issuance by financial institutions
 - ▶ MUFG Bank: Plans to establish infrastructure that allows exchange of stablecoins issued by various blockchains*²
 - ▶ Hokkoku Bank: Plans to issue regional currencies in order to promote cashless payment in the region*³

Back ground

- ▶ The sudden crash of the stablecoin Terra amidst the increased overseas issuance and circulation of stablecoins has led to stricter regulations on stablecoins



Sources:

*1 The Nikkei, Japan set to allow listing of stablecoins, <https://www.nikkei.com/article/DGXZQOUB019UW0R00C23A6000000/>

*2 The Nikkei, MUFG and its partners build infrastructure for stablecoin transactions, <https://www.nikkei.com/article/DGXZQOUB227BE0S3A320C2000000/>

*3 Hokkoku Bank, Announcing a blockchain-enabled local digital currency now available in Suzushi, Ishikawa, <https://www.hokkokubank.co.jp/other/news/2023/pdf/20230427.pdf>

*4 The Nikkei, Stablecoins: Four approaches to achieving price stability, <https://www.nikkei.com/article/DGXZQOUB013IQ0R00C23A3000000/>

Asset Investment

10. Amendment of Defined Contribution Pension Act

- ▶ In June 2020, the eligible ages for defined contribution pension plans (individual and corporation) were expanded and the enrollment requirements were relaxed

Outline

- ▶ A type of private pension system which eligible individuals can join voluntarily, and in which individuals invest and manage their investments on their own, with future benefits determined by the financial performance of the investments (returns)*¹
 - ▶ Individual type (iDeCo)
 - ▶ Individuals determine contributions and management of assets
 - ▶ Contribution limit: JPY12,000 to JPY68,000 per month
 - ▶ Corporate type
 - ▶ Employers make contributions, and each employee is an enrollee who determines the management of assets at their own discretion
 - ▶ Contribution limit: JPY55,000 per month

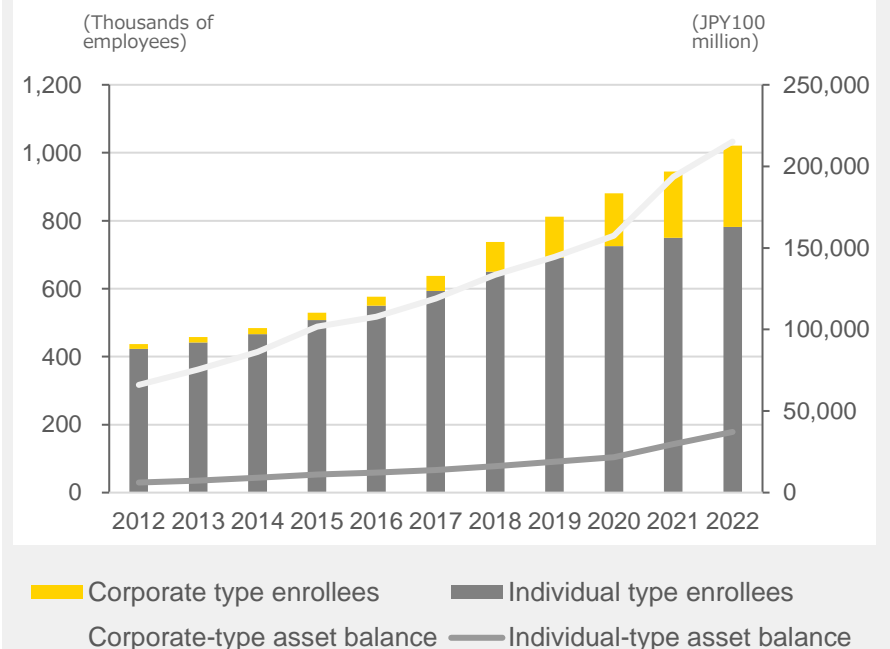
▶ Overview*²

System	Pre-revision	Post-revision
Corporate DC Enrollment age	<65	<70
Individual DC (iDeCo) Enrollment age	<60	<65
Number of employees for SME system	100 or less	300 or less
iDeCo enrollment requirements for corporate DC enrollees	Terms and rules apply	No terms or rules
	Requires decrease of employer contribution limits	Does not require decrease of employer contribution limits

Back ground

- ▶ Tasked with expanding the economic foundation for the elderly stage of life of individuals, which continues to lengthen in years, in order to address diversification and lengthening of working years

Changes in defined contribution pension plan enrollees and asset balances*³



Sources:

*1 Ministry of Health, Labour and Welfare, Overview of Defined Contribution Pensions, <https://www.mhlw.go.jp/stf/seisakunitsuite/bunya/nenkin/nenkin/kyoshutsu/gaiyou.html>

*2 Ministry of Health, Labour and Welfare, FY2020 reforms to the Defined Contribution Pension System, <https://www.mhlw.go.jp/stf/seisakunitsuite/bunya/nenkin/nenkin/kyoshutsu/2020kaisei.html#20221001>

*3 Pension Fund Association, DC Pension Plan Statistics (31 March 2022), https://www.pfa.or.jp/activity/tokei/files/dc_toukei_2022.pdf

Asset management

11. Amendment of NISA (Nippon Individual Savings Account (Japanese version ISA))

- ▶ NISA, a tax incentive system for individual investors, will be drastically expanded in scope and duration in an effort to encourage continuous investments by households

Outline

- ▶ NISA is a tax-exempt system for those who begin investing from a small amount, which started in January 2014.
- ▶ When investing in financial products, a tax of about 20% is usually levied on gains on sales and dividends. However, with "NISA accounts (tax- exempt accounts)", profits obtained from financial products purchased within a certain amount each year are tax-exempt. *1
- ▶ The revised NISA will begin from January 2024 and will provide a more simplified and easier to use system than the current version.
 - Making eligible period for opening account and tax-free holding periods indefinite to promote long-term investing by a wide range of age groups
 - Increasing annual investment limits and tax-free holding limits will make larger investments possible
 - Excluding certain investment products will allow for individuals to stably build assets

Back ground

- ▶ The revised NISA system is one of the efforts to achieve the Doubling Asset-based Incomes Plan and accelerate the transition from savings to investments, thereby achieving the "virtuous cycle of growth" for companies and assets

Revised NISA system

	Accumulation-type framework	Growth-type framework
Target users	Individuals 18 or older	
Period account was opened	Permanent	
Tax-free holding period	Indefinite	
Tax-free holding Limit	JPY18 million *if managed via book value method (allows for reuse of the framework if there are available amounts under the maximums)	
		JPY12 million (included amount)
Maximum annual investment amount	JPY1.2 million	JPY2.4 million
Eligible investment products	Long-term installment and diversified investments appropriate for certain investment trusts	Publicly traded shares and investment trusts (excludes certain products due to promote stable asset building)
Relation to current system	Products that are invested in until the end of 2023 using the current ordinary or general NISA accounts will be considered outside the scope of the new NISA and will be subject to the current tax-exemption rules.	

*Investment limits are calculated using price at the time of purchase

Sources:

*1 Financial Services Agency, NISA: Overview, <https://www.fsa.go.jp/policy/nisa2/about/index.html>

*2 Financial Services Agency, New NISA a powerful ally to savers, <https://www.fsa.go.jp/frtc/kikou/2022/20230207.pdf>

Asset management

12. Travel Rule becomes applicable

- ▶ From June 2023, the Travel Rule will go into effect, which require the accompaniment of sender/recipient information when transmitting crypto assets

Outline

- ▶ To facilitate maintaining a paper trail for crypto transactions, the Travel Rule will go into effect June 2023 and requires virtual asset service providers (VASPs) to disclose sender and recipient information during crypto asset transactions.
- ▶ Breakdown of applicability*1

Transfer type	Transfer to domestic VASP	Transfer to overseas VASP		Transfer to individual/unregistered business
		Countries requiring disclosure to Japan	Countries not requiring disclosure to Japan	
Applicability	○	○	×	×

Back ground

- ▶ In 2019, the FATF standards were revised, requiring each country to introduce the Travel Rule, and in 2021 Japan was positioned as a country requiring follow-ups in the FATF’s Mutual Evaluation of Japan*2
- ▶ Relevant laws and regulations have been established in response to the revisions to the Payment Services Act in 2020 and the FATF Recommendations Response Act.*3

Disclosure details*1

	Individuals	Corporations
Sender information	<ul style="list-style-type: none"> ① Name ② Address or customer ID number ③ Blockchain address or ID that can identify address 	<ul style="list-style-type: none"> ① Business name ② Location of head office, principal office, or customer ID number ③ Blockchain address or ID that can identify address
Recipient information	<ul style="list-style-type: none"> ④ Name ⑤ Blockchain address or ID that can identify address 	<ul style="list-style-type: none"> ④ Business name ⑤ Blockchain address or ID that can identify address

Sources:

*1 Financial Services Agency, “Request for Notification of Originator and Beneficiary Information upon Crypto Assets Transfer (the travel rule)”, <https://www.fsa.go.jp/en/news/2021/20210331/01.pdf>

*2 Ministry of Finance, 4th FATF Mutual Evaluation of Japan and Suggested Revisions to the Foreign Exchange and Foreign Trade Act, https://www.mof.go.jp/about_mof/councils/customs_foreign_exchange/sub-foreign_exchange/proceedings/material/gai20211116_4.pdf

*3 Financial Services Agency, “Announcement of a proposed ordinance effecting a partial revision of the Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds”, <https://www.fsa.go.jp/news/r4/sonota/20230203-2/20230203-2.html>

Asset management

13. Liberalization of foreign investments of investment LPS

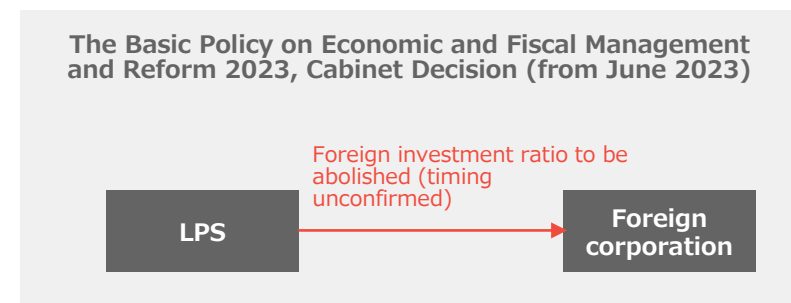
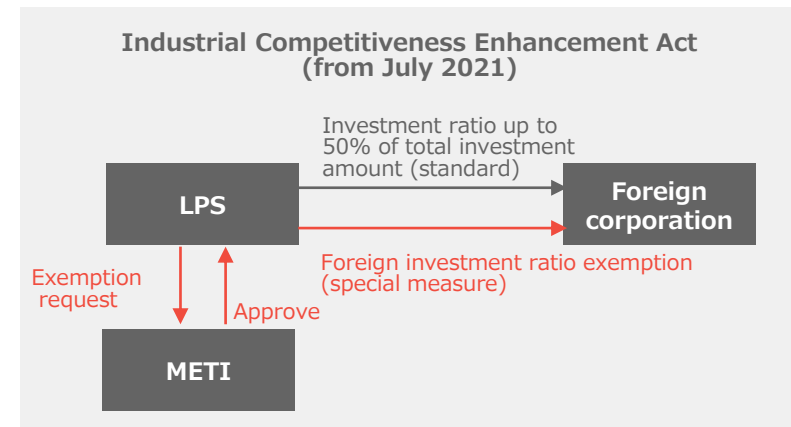
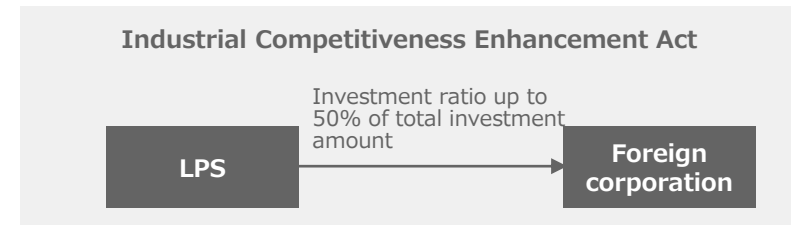
- ▶ As a result of revisions made to the Industrial Competitiveness Enhancement Act, investment limited partnerships (LPS) can now receive a special exemption from foreign investment ratio regulations. In addition, Furthermore, basic policies announced by the government in 2023 aim to eliminate ratio regulations.

Outline

- ▶ As a result of revisions*¹ made to the Industrial Competitiveness Enhancement Act in July 2021, investment limited partnerships (LPS) can now receive a special exemption from foreign investment ratio regulations. Barring exceptions, LPS are not permitted more than 50% of foreign capital, but this foreign investment ratio regulation will now be exempted by applying the newly introduced special provision.
- ▶ The Basic Policy on Economic and Fiscal Management and Reform 2023*², released by Cabinet Decision in June 2023, aims to completely abolish these regulations. In addition to removing these regulations, there is a shift (which includes accounting systems) from acquisition price valuation, which is the traditional stock price valuation method used by domestic investment management companies, to the global standard fair value valuation of mark-to-market valuation.
- ▶ Due to above revisions and legislation, LPS investment activities in overseas companies are expected to become more active, and foreign companies should also have more opportunities to raise funds in Tokyo

Back ground

- ▶ In order to revitalize the Japanese economy, the Industrial Competitiveness Enhancement Act was enacted in December 2013 to break domestic industries free from mid- to long-term stagnation and put them back on track to sustainable development. The Act aims to correct three distortions in the Japanese economy, namely, over-regulation, under-investment, and delay in consolidation.
 - Specifically, the Government of Japan will enhance Japan's industrial competitiveness by allowing preferential regulatory flexibility to individual enterprises, as well as by facilitating approaches to the renovation of industries, including business restructuring aiming at a significant increase in profits and promoting venture businesses.
 - In July 2021, the Act was revised with the aim of making preemptive actions toward the "New Normal" and supporting companies' reform from a long-term perspective, while properly responding to short- to mid- and long-term changes in socioeconomic circumstances such as the impact of COVID-19 infection and rapid population decreases.



Sources:

*1 Ministry of Economy, Trade and Industry, "Industrial Competitiveness Enhancement Act", https://www.meti.go.jp/english/policy/economy/industrial_competitiveness_act/index.html

*2 Cabinet Office, "Basic Policy on Economic and Fiscal Management and Reform 2023", https://www5.cao.go.jp/keizai-shimon/kaigi/cabinet/honebuto/2023/2023_basicpolicies_ja.pdf

Insurance

14. Insurance companies join the metaverse

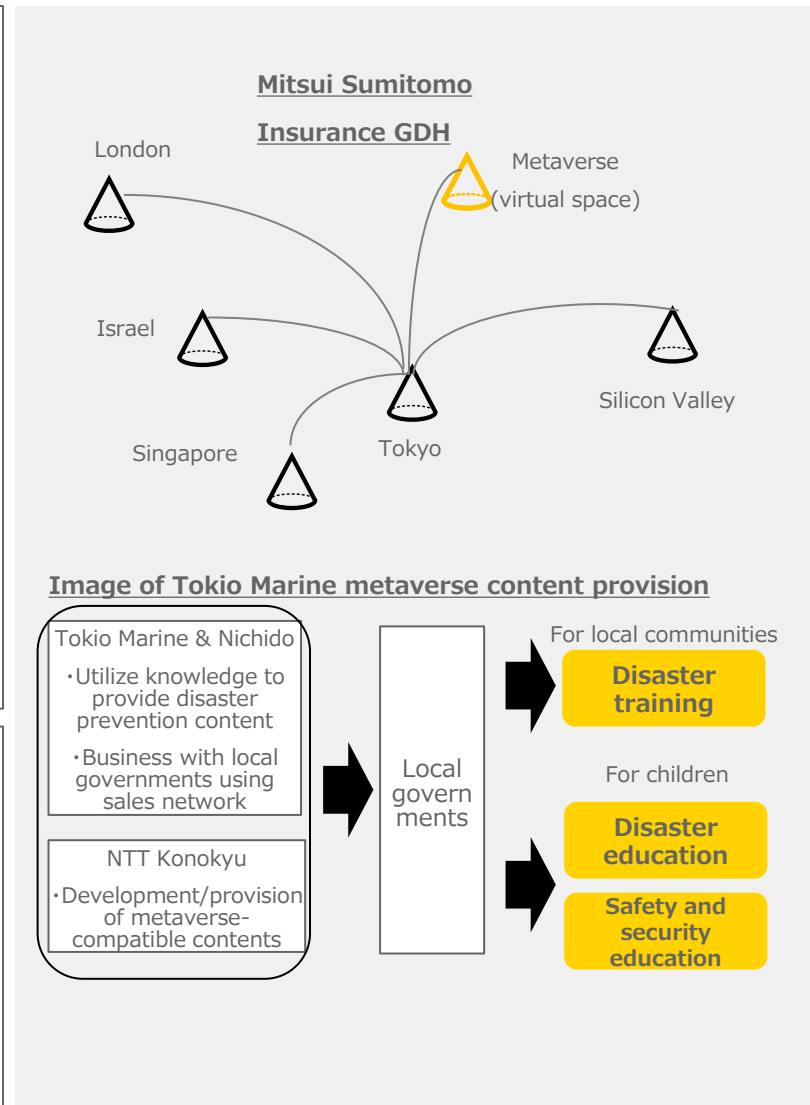
- ▶ During 2022 and 2023, major insurance companies have begun venturing into establishing businesses in the metaverse

Outline

- ▶ In May 2022, Mitsui Sumitomo Insurance Co., Ltd. announced the launch of its Metaverse Project*¹
 - It will establish a site for the creation of new businesses within the metaverse, titled “GDH Meta”, which will facilitate the exchange of ideas inside and outside the company and the founding of new business ideas
 - It will also analyze the impacts of the metaverse on society, identify risks for stakeholders, and develop products and services that compensate for losses
- ▶ In February 2023, Tokio Marine & Nichido Fire Insurance Co., Ltd. created a business alliance with NTT Konokyu, a developer of XR businesses (advanced technology for augmented reality)*²
 - In an effort to contribute to the addressing societal challenges, they will develop and provide content that can assist in responding to natural disasters and accidents
 - They will examine possible risks in the metaverse space and develop/provide applicable insurance coverage
- ▶ Aflac Life Insurance is developing services that leverage the metaverse*³
 - The metaverse creates a new point of contact with potential customers
 - Insurance management functions will advance by leveraging offerings of the metaverse and digital twins

Back ground

- ▶ Mitsui Sumitomo Insurance anticipates that the pandemic will spur economic activity on the metaverse and spread its use throughout society
- ▶ Business chance for insurance companies
 - ▶ Utilizing the metaverse allows for the creation and provision of new points of contact and user experiences.
 - ▶ Growing demand for using to metaverse to develop businesses that can address societal challenges



Sources:

*1 Mitsui Sumitomo Insurance, Announcing our metaverse project, https://www.ms-ins.com/news/fy2022/pdf/0512_1.pdf

*2 Tokio Marine Nichido, NTT QONOQ and Tokio Marine Nichido conclude strategic business alliance for safety in the metaverse and societal wellbeing https://www.tokiomarine-nichido.co.jp/company/release/pdf/230227_01.pdf

*3 The Nikkei, Aflac shows digital prowess by launching suite of services enabled by AI and VR <https://xtech.nikkei.com/atcl/nxt/column/18/00001/06817/>

Financing

15. Personal guarantee exemption for business owners becoming prevalent

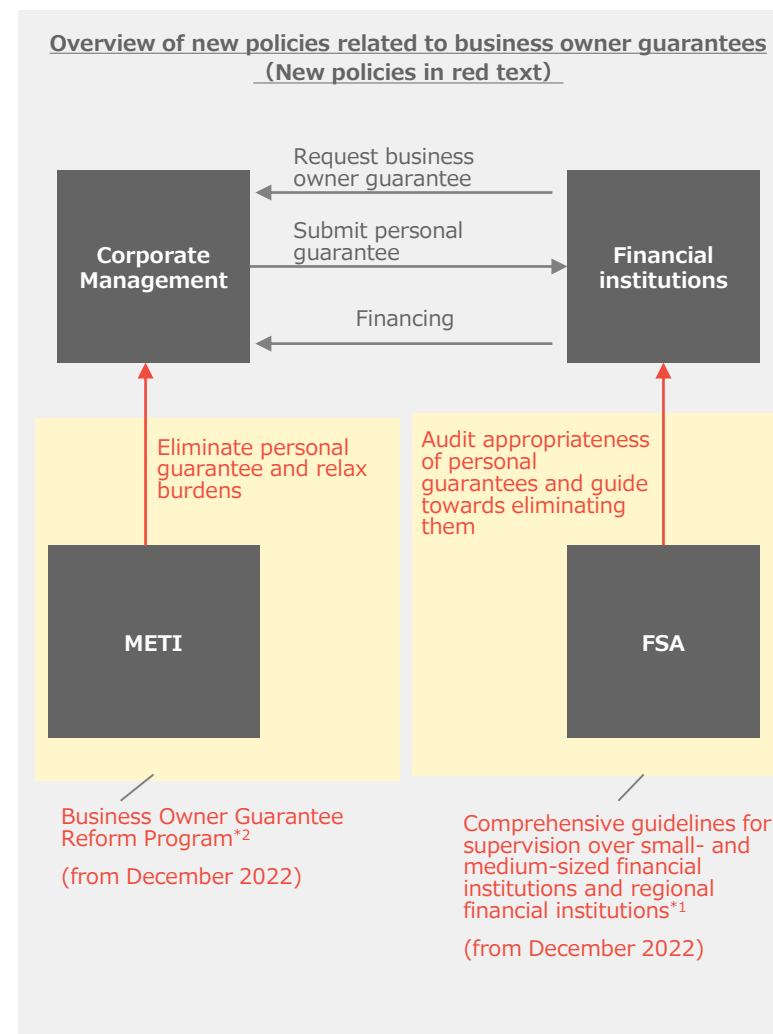
- ▶ As a result of policies from both the FSA and METI, there is a growing movement to eliminate the need for business owner guarantees being required as collateral for financing

Outline

- ▶ In December 2022, the FSA announced the “Comprehensive guidelines for supervision over small- and medium-sized financial institutions and regional financial institutions”^{*1}
 - These guidelines for financial institutions aim to curb the need for personal guarantees for financing by, for example, requiring institutions to provide specific reasons as to why a personal guarantee is required for their loan
- ▶ In December 2022, METI formulated the “Business Owner Guarantee Reform Program”^{*2}
 - This reform program for business owners aims to curb lending reliant on personal guarantees by establishing a new credit guarantee system that does not require business guarantees, and by establishing a dedicated consultation desk and other services for business owners related guarantees
- ▶ As a result, start-ups and small and medium-sized businesses (SMEs) which may be experiencing financial strain due to the efforts of businesses owners and entrepreneurs striving to develop and grow their business can now quickly achieve turnarounds

Back ground

- ▶ A business owner’s personal guarantee, which requires the business owner to act as guarantor jointly and severally liable for the company, can contribute to streamlined financing for SMEs and as a means of disciplining management of SMEs. However, it can also be a detriment to the start-ups and SMEs which may be experiencing financial strain due to the efforts of businesses owners and entrepreneurs striving to develop and grow their business can now quickly achieve turnarounds
- ▶ Amidst this backdrop, in December 2013 the Japanese Bankers Association and the Japan Chamber of Commerce and Industry established the "Guidelines for Guarantees for Business Owners"^{*3} as voluntary and autonomous rules to be used by business owners and financial institutions when dealing with SME guarantees
- ▶ Despite the establishment of these guidelines, financing that does not require a business owner’s persona guarantee have only reached approximately 33.1% of all financing as of the first half of FY2022^{*4} Accordingly, the above guidelines and reform program were formulated in December 2022 with the aim of making guarantee-free financing more prevalent



Sources:

*1 FSA, Comprehensive Guidelines for Supervision of Regional Financial Institutions: <https://www.fsa.go.jp/common/law/guide/chusho/index.html>

*2 METI, News release concerning the program to reduce reliance on personal guarantees, <https://www.meti.go.jp/press/2022/12/20221223006/20221223006.html>

*3 Japanese Bankers Association, Guidelines concerning personal guarantees: <https://www.zenginkyo.or.jp/adr/sme/guideline/>

*4 FSA, Successful adoption of the guidelines concerning personal guarantees: <https://www.fsa.go.jp/news/r4/ginkou/20221227-2.html>

Financing

16. Enacting legislation for asset-based lending

- ▶ The Legislative Council, an advisory body to the Minister of Justice, is conducting a study on legislation aimed at expanding financing backed by assets

Outline	<ul style="list-style-type: none">▶ In December 2022, the Legislative Council of the Minister of Justice, compiled an interim proposal regarding the collateral set when companies receive financing^{*1}<ul style="list-style-type: none">• The draft proposal calls for enactment of legislation stipulating inventory, production equipment, accounts receivable, etc. as collateral. It aims further growth opportunities for SMEs by reforming financing that overemphasize reliance on real estate and personal guarantees of business owners
Back ground	<ul style="list-style-type: none">▶ SMEs and start-ups are companies with little to no real property. Many have pointed out that current lending practices of financial institutions limit the opportunities for raising funds and hinder business expansion^{*2}▶ Inventory, personal property, and bonds are not classified under the Civil Code as collateral that can be used for corporate financing. Committee on Collateral Legislation of the Legislative Council has been in discussions since April 2021 regarding treating such assets in the same way as real property▶ Such legislative developments may also have an impact on supply chain finance,^{*3} in which financial institutions support the early monetization of accounts receivable related to inter-company transactions. In supply chain finance, which is used as a means of procuring working capital, financing between large companies and SMEs/startups using the creditworthiness of large companies is the standard, but similar financing between only SMEs and startups is more difficult to obtain from financial institutions. If these legal developments which allow for other assets to be used as collateral make it easier to lend to SMEs and start-ups that need working capital, it will be an opportunity to bring supply chain finance to the overall supply chain and improve the stability of lending across the supply chain

Sources:

*1 MOJ, Interim draft of revisions to securities legislation, https://www.moj.go.jp/shingi1/shingi04900001_00179.html

*2 The Nikkei, Legislative council releases interim draft of revisions to securities legislation, <https://www.nikkei.com/article/DGXZQOJA060DA0W2A201C2000000/>

*3 Fintech Journal, Introduction to supply chain finance, <https://www.sbbt.jp/article/fj/71953>

DX/Infrastructure

17. Plans to open carbon credit market on Japanese stock exchange

- ▶ In June 2023, the Japan Exchange Group announced that it would open a carbon credit trading market. The market is expected to open in October 2023.

Outline	<ul style="list-style-type: none"> ▶ In June 2023, the Japan Exchange Group announced system criteria for the opening of a carbon credit market.*¹ The market is expected to open in October 2023. <ul style="list-style-type: none"> • The market is a compliance market centered on the J-Credit scheme,*² a carbon credit certified by the Japanese government.
Back ground	<ul style="list-style-type: none"> ▶ In February 2022, METI announced the "GX (Green Transformation) League Basic Concept" as a means of achieving carbon neutrality and social change by 2050. As a part of these initiatives, the creation of framework for emissions trading that allows for setting voluntary emissions reduction targets and engaging in efforts to achieve them, alongside the creation of a carbon credit market that serves as a venue for such voluntary emissions trading, have been set forth. ▶ As such, the Japan Exchange Group began a demonstration experiment of a carbon credit trading market in September 2022. The demonstration experiment was conducted until January 2023 and the establishment of an official market was announced based on the results of the experiment.

Classification of tradeable carbon credits on the market

First tier	Second tier
J-Credit* ²	Energy saving
	Renewable energy (electricity)
	Renewable energy (heat)
	Renewable energy (electric/heat)
	Forest
	Other
Transitional type from Domestic Credit Scheme* ³	Domestic Credit
Transitional type from J-VER Scheme* ⁴	J-VER (non-transitional) Forest
	J-VER (non-transitional) Other
Regional J-Credit, J-VER (non-transitional), Regional J-VER (non-transitional), Domestic Credit (non-transitional),	Regional J-Credit
	J-VER (non-transitional) Forest
	J-VER (non-transitional) Other
	Regional J-VER (non-transitional)
	Domestic Credit (non-transitional)

Sources:

*1 JPX, Carbon credit market terms and conditions: <https://www.jpx.co.jp/equities/carbon-credit/market-system/index.html>

*2 J-Credit Scheme website : <https://japancredit.go.jp/english/>

*3 Domestic J-Credit Scheme website (Expired in 2014年): <https://japancredit.go.jp/jcdm/outline/index.html>

*4 MOE, Offset Credit (J-VER) Scheme (Expired in 2013): https://www.env.go.jp/earth/ondanka/mechanism/carbon_offset/j-ver.html