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1. Fintech regulatory framework: a summary of the most relevant laws and regulations concerning fintech and financial innovation.

In Japan, no specific fintech or financial innovation laws have been enacted. However, there are numerous laws that are relevant to fintech companies, and a series of recent amendments thereof have enhanced the development of fintech and financial innovation. Below are summaries of the most relevant laws.

The Payment Services Act – regulation of funds transfer services

For a non-bank business operator to operate a remittance service, it must be registered as a funds transfer service under the Payment Services Act (PSA). Remittance services are generally considered 'exchange transactions' (*Kawase Torihiki*) which generally only banks are allowed to provide. However, entities other than banks are also permitted to operate a remittance service by registering as a funds transfer service.

There are three types of funds transfer services. For Type 1 funds transfer services, there is no maximum amount of remittance per remittance, but for Type 2 funds transfer services and Type 3 funds transfer services, the limits are JPY 1m and JPY 50,000 per remittance, respectively. It is easier to obtain registration as a funds transfer service provider than to obtain a banking licence.

The PSA – regulation of prepaid payment instruments (own business/ third-party business)

Prepaid settlement services are regulated by the PSA and are categorised as either prepaid payment instruments for one's own business or as prepaid payment instruments for third-party businesses. In this context, prepaid payment instruments for one's own business refers to prepaid settlement services that can only be used for products and services provided by the issuer of the prepaid settlement instrument. Prepaid payment instruments for third-party businesses refers to prepaid settlement services that can be used with merchants other than the issuer.

Prepaid settlement services include integrated circuit (IC) cards, server-based prepaid cards, server-based electronic money and virtual currencies used in online games. As the PSA does not apply to some settlement services, it is necessary to confirm on a case-by-case basis whether the PSA applies to any given settlement service.

The issuer of a prepaid payment instrument for one's own business is required to submit a notification to the competent authority, if the unused balance of all the prepaid payment instruments is over JPY 10m as of the record date (the record dates being 31 March and 30 September each year). Such notification is due within two weeks from the day after the record date. The issuer of a prepaid payment instrument for a third-party business is required to register before issuing such instruments. Only a registered issuer is allowed to issue a prepaid payment instrument for a third-party business.

Pursuant to a 2022 amendment to the PSA, regulations have been tightened for prepaid payment instruments for third-party businesses that can be electronically assigned or transferred (limited to payments of large amounts, as provided for in the Cabinet Office Order referred to in Section 3).

Several regulatory enhancements relating to crypto-assets and electronic payment instruments have been introduced pursuant to the 2025 amendments to the PSA. These include:

- the establishment of a domestic asset-holding order applicable to Electronic Payment Instruments Service Providers and Crypto-Asset Exchange Service Providers (a new provision enabling the authority to issue an order requiring domestic custody of assets – limited to spot crypto-assets – so as to secure the return of customer assets in the event of the insolvency of such providers, and aligning the framework with that used for financial instruments business operators handling crypto-asset derivatives);
- the development of requirements permitting certain government bonds and early-redeemable time deposits to be used as backing assets for trust-type stablecoins; and
- the creation of a new intermediary business category for electronic payment instruments and crypto-asset services. This registration-based category would be limited to brokerage and intermediation activities, and would not permit the direct sale, purchase or exchange of such assets.

With respect to funds transfer services, the amendment also delineates the types of cross-border payment collection arrangements that fall outside the scope of exchange transaction regulations, while clarifying which cross-border collection arrangements do fall within the regulatory perimeter.

In addition, the following three new methods for safeguarding customer assets were added for Funds Transfer Service Providers:

- Performance Guarantor Liability Assumption Agreements;
- Performance Guarantor Guarantee Agreements; and
- Performance Guarantee Deposit Repayment Trust Agreements.

When any of the three safeguarding methods is adopted, user funds may be returned directly to users without resorting to the deposit procedure with the Legal Affairs Bureau that is required under the existing safeguarding methods. The purpose of the amendment is to expedite the return of user funds by enabling such direct repayment.

Furthermore, for Type I Funds Transfer Service Providers, the previously strict retention rules have been relaxed. Where all customer obligations are fully safeguarded through the newly introduced methods and an early and certain repayment structure is in place, such providers may now bear exchange transaction liabilities for a period not exceeding two months.

On 10 April 2026, a bill to amend the Financial Instruments and Exchange Act (FIEA) and the PSA was submitted to the National Diet. The bill would bring transactions involving crypto-assets within the scope of regulation of financial instruments rather than payment services and would introduce a disclosure regime for information relating to crypto-assets and also insider trading regulations. Effectively, the regulatory framework for crypto-assets would be transferred from the PSA to the FIEA.

As of the date of this report, the bill has been approved by the House of Representatives, but not the House of Councillors and is therefore not yet law.

The Banking Act – regulation of electronic payment services

Electronic payment services include electronic remittance services, where remittance instructions are received online and the instructions relayed to the customers' bank on behalf of customers; and account information retrieval services, which are used by customers to obtain account information from the bank and provide it to customers online.

Electronic remittance services include real-time bank transfer services offered by cloud accounting services. Account information retrieval services include personal finance management (PFM) and cloud accounting services. Conducting either of the above services for business purposes requires registration as an electronic payment service under the Banking Act. A regulatory change of practical significance is that cash management systems (CMS) operated within corporate groups have been excluded from the scope of electronic payment services regulation, thereby enhancing operational efficiency in corporate treasury activities.

In 2022, amendments were introduced to accommodate Japan's new regulatory framework for stablecoins. On 1 June 2023, the regulatory regimes for Electronic Payment Instruments Transaction Business and Electronic Payment Services Handling Business came into effect, and entities operating these businesses are now required to obtain registration under either the PSA or the Banking Act.

Under the Banking Act, a new category of Electronic Payment Services Handling Business was established. This category covers businesses that, upon registration and pursuant to a mandate from a bank, engage in activities such as the transfer of funds and adjustments to deposit claims through electronic data processing systems in relation to the bank's depositors.

Furthermore, Electronic Payment Services Handling Businesses may, by filing a notification, operate as Electronic Payment Service Providers for customers who hold deposit accounts with the mandating bank. This operates as an exception to the registration requirement normally applicable to Electronic Payment Service Providers.

These frameworks were designed to facilitate the use of bank-issued stablecoins. However, the issue of stablecoins by banks themselves is, in practice, not yet actually permitted.

Please see Question 2 for further details.

Regulations of crypto assets

Please see Section 2 for further details.

'Brokerage' of crypto assets category

Please see Section 6 for further details.

The PSA – regulations of stablecoins

Stablecoin regulations were introduced by the PSA amendment of 2022; please see Section 2 for further details.

Financial Action Task Force (FATF) – Fourth Mutual Evaluation of Japan

The Fourth Mutual Evaluation of Japan by the FATF concluded that further enhancement and optimisation of transaction filtering and monitoring was required in Japan. In response, under the 2022 amendment of the PSA, the business of providing transaction filtering and monitoring services has been defined as an 'exchange transaction analysis business'.

Therefore, any person who wishes to engage in the business of exchange transaction analysis is now required to obtain permission from the competent authority. The Japanese Bankers Association established the Cooperation Agency for Anti-Money Laundering, Inc. in January 2023 as a wholly owned company to promote the enhancement and joint operation of AML/CFT functions. The company obtained permission to act as an exchange transaction analysis business operator on 29 May 2024 and began providing AI scoring services to financial institutions in April 2025. As of the Financial Services Agency's published list dated 29 May 2024, three entities had obtained permission to act as exchange transaction analysis business operators.

Japanese Banks' Payment Clearing Network

The Japanese Banks' Payment Clearing Network is now considering providing funds transfer service providers with access to the data telecommunications system of all banks (the Zengin System), a money transfer system that is currently available to depository financial institutions only.

Provision of access to the Zengin System to funds transfer service providers would enable them to directly remit money to financial institutions and other funds transfer service providers, which is expected to lead to a reduction in time and costs required for remittances. Furthermore, this could increase competition in the development of new remittance services using smartphone apps.

The Japanese Banks' Payment Clearing Network agreed to provide funds transfer service providers with access to the data telecommunications system of all banks (the Zengin System), a money transfer system that had previously been available only to depository financial institutions. Granting access to the Zengin System enables funds transfer service providers to directly remit funds to financial institutions and other funds transfer service providers, thereby reducing the time and costs associated with remittances. It has also facilitated increased competition in the development of new smartphone-based remittance services.

Under this policy, in late November 2025, Wise became the first non-bank funds transfer service provider to connect directly to the Zengin System via the new API and to settle transactions directly with the Bank of Japan.

2. Regulations on crypto assets: a summary of the legal framework regarding crypto assets and how they are regulated.

In Japan, applicable laws and regulations on crypto assets vary depending on the type of digital asset as well as the related products and services. The major digital assets and applicable laws are as follows.

Crypto assets

Crypto assets such as Bitcoin are regulated by law. Any of the following activities conducted in the course of trade constitute 'crypto asset exchange services', and any person who conducts crypto asset exchange services falls within the scope of PSA regulation and must be registered with the regulator for:

1. Purchase and sale of crypto assets and exchange for other crypto assets;
2. Intermediation, brokerage or agency of (1);
3. Management of user funds for the purposes of (1) or (2); or
4. Management of crypto assets for another person.

The amendments to the PSA of 2025 came into force in June 2026 and the FSA opened a public consultation on 16 December 2025 to finalise the implementing Cabinet Orders and Cabinet Office Ordinances. Key changes include the creation of a new, lighter-touch 'intermediary business' registration category for Crypto Asset Exchange Services/Electronic Payment Instruments that do not handle client assets (for example, they will not be required to comply with Anti-Money Laundering Law or rules relating to asset/capital requirements, as they do not handle client money), as well as enhanced user protection measures in the event of an exchange's insolvency.

In addition, there is a strong movement advocating for tax reform for crypto assets. Industry bodies such as the Japan Virtual Currency Exchange Association (JVCEA) and the Japan Cryptoasset Business Association (JCBA), as well as the Financial Services Agency (FSA) in its annual tax reform proposition for fiscal year 2026, have formally proposed changing the taxation of individual crypto asset gains from the current system of miscellaneous income (subject to progressive rates up to 55 per cent) to a flat 20 per cent separate self-assessment tax, similar to the treatment of stocks and foreign exchange margin trading.

On 31 March 2026, the Act Partially Amending the Income Tax Act and Other Related Acts was promulgated. Under this legislation, income arising from crypto-asset transactions will become subject to separate taxation (ie, a flat 20 per cent separate self-assessment tax). The crypto-assets eligible for such separate taxation are defined as 'Specified Crypto-Assets' under the Act on Special Measures Concerning Taxation, with the final scope to be determined by a ministerial ordinance issued by the Ministry of Finance.

Crypto asset derivative transactions

Under the 2019 amendments to the FIEA, crypto asset margin trading is deemed to be ‘over-the-counter transactions of derivatives’ and conducting such transactions on a regular basis requires regulation as a ‘financial instruments business’. Therefore, any person who conducts financial instruments business falls within the scope of FIEA regulation and must be registered with the regulator.

Security tokens

The 2019 amendments to the FIEA clarify that certain types of security tokens are categorised as ‘securities’, and as such the activities of purchasing, selling and underwriting of such security tokens is regulated as a ‘financial instruments business’. Therefore, any person who conducts financial instruments business falls within the scope of FIEA regulation and must be registered with the regulator.

Stablecoins

Under the PSA, stablecoins are categorised as follows:

1. Stablecoins that are issued at a price linked to the value of fiat currency (eg, one coin = 1 JPY or one coin = 1 USD) enabling redemption at the issued price; and
2. Stablecoins other than (1) above (eg, stablecoins that attempt to achieve price stability through means of algorithmic mechanisms).

While the category of stablecoins described in (2) are regulated as ‘crypto assets’ under the pre-existing provisions of the PSA, as discussed above, the stablecoin usage described in (1) is more akin to that of electronic money regulated as money transmissions and means of payment. The 2022 amendments were intended to regulate the stablecoins described in (1), and a new licensing regime was introduced for intermediaries who handle such stablecoins. Under this new regulatory framework, a domestic fintech firm successfully registered to handle USDC, a stablecoin issued by Circle, as an intermediary for operations within Japan. In October 2025, JPYC became the first yen-pegged stablecoin to be issued under this framework, marking the launch of a fully regulated domestic stablecoin.

Another key point is that, in order to protect users’ redemption rights, issuers of such stablecoins are limited to: (1) banks regulated under the Banking Act; (2) funds transfer service providers regulated under the PSA; and (3) trust companies regulated under the Trust Business Act, with such financial institutions already being regulated under their respective bankruptcy protection regimes. However, while the legal framework for such stablecoins is established (under the PSA, these stablecoins are defined as electronic payment instruments (EPIs)), the issuance of EPIs by banks has been deemed to require careful consideration from the perspectives of user protection and financial system stability and is not currently permitted.

Under the amendment to the PSA of 2025, which came into force in June 2026, the asset management rules for trust-company-issued stablecoins were relaxed. Under the revised framework, issuers will no longer be required to hold 100 per cent of reserve assets in demand deposits; instead,

up to 50 per cent may be invested in low-risk instruments such as Japanese or United States short-term government bonds. This marks a significant step toward improving capital efficiency and economic viability for stablecoin issuance in Japan.

Moreover, the legal framework described above is expected to undergo further significant reform. As noted, on 10 April 2026, the FSA submitted to the Diet a bill to Amend the Financial Instruments and Exchange Act and the Payment Services Act. The principal elements of this amendment relating to the 'review of the regulatory framework for crypto-assets' include:

- the transfer of regulatory authority over crypto-asset transactions from the Payment Services Act to the FIEA;
- strengthened measures against unregistered operators;
- the establishment of disclosure requirements;
- enhanced business conduct regulations applicable to crypto-asset exchange service providers (to be renamed 'crypto-asset trading service providers'); and
- the introduction of insider trading rules and other enhancements to the unfair trading regulations.

The scope of the amendments is extensive. For example:

- under the amended bill, 'crypto-assets' are defined as a category of 'financial products' distinct from securities under the FIEA;
- investment management and investment advisory activities conducted as a business in respect of crypto-assets (spot) are deemed to constitute 'investment management business' or 'investment advisory/agency business', respectively. Together with other amendments, this enables investment management companies to handle crypto-asset ETFs.

With respect to the 'Electronic Payment Instruments and Crypto-Asset Service Intermediary Business' introduced in the PSA 2025 amendments, the part relating to the intermediation of crypto-asset transactions will be incorporated into the FIEA as 'Financial Instruments Intermediary Business', while only the part relating to the intermediation of electronic payment instrument transactions will remain under the PSA as 'Electronic Payment Instruments Service Intermediary Business'.

3. Payment service providers and digital wallets: a summary of regulations applying to payment service providers and/or digital wallets.

Payment service providers, and the provision of digital wallets by them, are regulated under the PSA. As described in Section 1, there are two types of payment service providers (funds transfer service providers and issuers of prepaid payment instrument (e-money)), with both usually providing digital wallets for their customers.

In addition to the restrictions mentioned in Section 1, the PSA requires funds transfer service providers to establish measures to ensure that they do not hold customer funds that are not being used for exchange transactions. In relation to this restriction:

- Type 1 funds transfer service providers are only allowed to hold funds that are received with specific remittance instructions from customers;
- Type 2 funds transfer service providers are required to check with a customer who holds more than JPY 1m in its account, to determine if (and ensure that) the funds in the account will be used for remittance purposes only. Type 2 funds transfer service providers are also required to establish measures to return funds to a customer or avoid holding any customer funds, which they discover are not being used for remittance purposes; and
- Type 3 funds transfer service providers are not allowed to accept more than JPY 50,000 into each customer account.

Issuers of e-money who are not registered as funds transfer service providers and are only registered as issuers of prepaid payment instrument are not permitted to allow customers to withdraw e-money as cash, unless the issuers have decided to stop providing their services.

Issuers of prepaid payment instruments that allows customers to charge high amounts for such prepaid payment instruments and transfer them to other customers are subject to AML and know your client (KYC) regulations under the PSA and the Act on Prevention of Transfer of Criminal Proceeds. The regulations require issuers of prepaid payment instruments for third-party businesses to comply with AML/KYC regulations and to submit additional information and a business implementation plan when they make their registration application. Specifically, this applies in situations where the issuer issues prepaid payment instruments that can be charged high amounts and electronically transferred to other customers as follows:

- more than JPY 100,000 for one charge/transfer transaction; or
- more than an aggregate of JPY 300,000 for transactions by a customer that are conducted within a month.

4. Special support to fintechs: a description of special programmes supporting the fintech ecosystem, fintech startups (eg, regulatory sandboxes and accelerator programmes) and regulations regarding special support.

There are several special programmes promoting innovation and supporting the fintech ecosystem in Japan.

The Government of Japan regulatory sandbox

The regulatory sandbox framework facilitates realisation of innovative technologies and business models in Japan. The framework is based on the Industrial Competitiveness Enhancement Act, and is open to all industries, including fintech, healthcare and mobility. Under this framework, companies can apply to conduct 'demonstrations' and test the possibilities of using innovative technologies for future businesses. This is particularly useful for the purpose of testing or demonstrating certain types of business that currently cannot be conducted in Japan due to existing Japanese regulations.

Ministry of Economy, Trade and Industry (METI)

Alongside the government's regulatory sandbox framework, METI enhances Japan's industrial competitiveness through two systems under the Industrial Competitiveness Enhancement Act.

Under the System to Remove Grey Zones, where there is uncertainty over whether existing laws and regulations will be applied to innovative products and services due to their novel nature, METI, together with the other competent ministry, can provide clarity and confirmation regarding the applicability of existing regulations to the concerned company.

In addition, METI's System of Special Arrangements for Corporate Field Tests allows preferential regulatory flexibility to individual enterprises and aims at the satisfaction of safety standards and other requirements.

FSA

FSA's FinTech Support Desk is a one-stop point of contact for enquiries and exchange of information on fintech. It accepts a wide range of enquiries on various finance-related matters, including from fintech startups with innovative ideas and visions.

FSA's FinTech PoC (Proof of Concept) Hub aims to tackle challenges and obstacles to financial innovation by assisting fintech companies and financial institutions by alleviating and addressing reluctance and concerns related to the testing of innovative products and technologies. The Hub offers support by forming special working teams for various projects in cooperation with other relevant authorities as necessary.

Furthermore, based on the Japanese government's *Policy Plan for Promoting Japan as a Leading Asset Management Centre*, FSA collaborates with local governments in relation to the Special Zones for Financial and Asset Management Businesses, including fintech businesses. The initiatives of these local governments are listed below.

Tokyo Metropolitan Government (TMG)

To establish and maintain Tokyo's position as a leading global financial city, TMG offers various programmes to increase the number of participants in the Tokyo market, including the fintech industry. TMG's programmes include:

- the Sushi Tech Global programme, a collaboration between the public and private sectors, which provides comprehensive support for startups, including talent, funding, overseas expansion and more, to help them achieve global growth and societal transformation;
- an overseas financial corporation business establishment subsidy programme;
- subsidies to support base of operations of overseas financial corporations;
- subsidies to support fintech companies expanding overseas; and
- a financial award system, including an accelerator programme for fintech companies.

Osaka Prefecture and Osaka City (Osaka)

Osaka aims to create an environment to enable startups and universities to take on challenges with the final aim of achieving a future society where new innovations are created. In connection with fintech startups, Osaka's initiatives include:

- hosting startup events, providing acceleration programmes, matching startups with investors and other stakeholders, operating incubation facilities; and
- an overseas financial corporation business establishment subsidy programme.

Fukuoka Prefecture and Fukuoka City (Fukuoka)

Leveraging Fukuoka's strengths as 'Asia's Gateway', Fukuoka aims to attract international financial institutions, their affiliated companies and highly skilled financial professionals. Fukuoka also provides an overseas financial corporation business establishment subsidy programme.

Tokyo Stock Exchange (TSE)

TSE has established the TSE Asia Startup Hub, an ecosystem designed to encourage promising Asian companies to choose TSE for their IPOs. By fostering collaboration between TSE and its partners, including banks, venture capital firms, securities companies, audit firms, law firms and information vendors, the TSE Asia Startup Hub aims to boost the number of promising Asian companies listed on the exchange in the long term, by catering to the needs of each company and providing support for business development, fundraising and IPOs in Japan.

5. Open banking: a summary of regulations regarding open banking and direct or indirect regulations that affect open banking.

The Banking Act introduced the concept of 'electronic payment services', which includes:

- services to provide funds transfer instructions via the internet at the request of depositors (Write API); and
- services to obtain account information from banks and provide such information to depositors via the Internet (Read API) at the request of depositors.

Banks are also obliged to make efforts to share the APIs they have established. The introduction of open APIs by banks will enable fintech companies to provide various fintech services by accessing banking systems. Open API is one of the core technologies of open innovation and further facilitates and promotes open banking.

In addition, under the Act on the Provision of Financial Services, which came into force on 1 November 2021, any person registered as a financial services intermediary business may act as an intermediary in transactions between:

- banks and customers;
- insurance companies and customers;
- securities companies and customers; and
- money lending companies and customers.

Financial services intermediary business promotes the creation of sales channels and platforms for one-stop financial services.

Furthermore, although there are no currently scheduled amendments to other relevant provisions of law, the number of embedded finance transactions are increasing. Embedded finance is a type of financial service where non-financial institutions (such as retailers and real estate companies) provide (in an agency capacity) the financial functions of banks to customers, an arrangement that has the potential to transform the roles of existing banks. The functions of the banks themselves, in this case, are referred to as 'banking as a service' (BaaS), in the sense that the banking services are to be provided by the banks to the non-bank service providers, who supply the services to the bank customers. Additionally, there are cases where an 'enabler' fintech company operates between a bank and a non-bank service provider, and their emergence is one of the factors promoting the unbundling of banking services.

The amendments to the PSA, which came into force in June 2026, address the evolving landscape of digital finance. Key provisions include:

- granting regulatory authorities the power to require crypto asset and electronic payment service providers to safeguard customer assets in Japan;
- introducing a new, less burdensome, 'broker' category to facilitate crypto asset intermediation, which had previously faced high entry barriers; and
- establishing regulatory oversight for cross-border collection agency services – an area previously unregulated and sometimes exploited for remittances to offshore gambling sites.

These measures aim to enhance the safety and reliability of Japan's digital payment ecosystem, including open banking frameworks. Separately, in 2023, amendments to labour-related regulations lifted the ban on 'digital salary payments', allowing wages to be paid via digital money through accounts held with licensed fund transfer service providers. In August 2024, PayPay became the first designated operator under this scheme, marking the emergence of new fund flows within the digital ecosystem that can be integrated with open banking services.

As of 1 July 2026, four funds transfer service providers designated by the Minister of Health, Labour and Welfare have been authorised to offer digital wage payment services.

6. Regulation of virtual asset service providers.

Crypto asset exchange service provider definition

While virtual asset service provider (VASP) is the globally accepted term, the specific legal designation regulated under the PSA is the 'crypto asset exchange service provider' (CAESP). An entity must obtain registration from the FSA as a CAESP if it engages in any of the following activities 'in the course of business' (*gyoumu toshite*):

1. Exchange activities: The sale and purchase of crypto assets (ie, crypto-to-fiat transactions) or the exchange between different crypto assets (crypto-to-crypto).
2. Intermediation activities: Acting as an intermediary, broker or agent for the exchange activities described in (1) above.
3. Management of customer fiat currency: The management of users' fiat currency in connection with the activities set forth in (1) and (2).
4. Crypto asset custody: The management (custody) of crypto assets on behalf of another person.

After the aforementioned bill to Amend the Financial Instruments and Exchange Act and the Payment Services Act comes into force, the designation 'Crypto-Asset Exchange Services Provider' will be replaced with 'Crypto-Asset Business Operator ('Ango-Shisan Torihiki Gyousha')'.

'Brokerage' category

To lower entry barriers and promote competition, the 2025 amendments to the PSA introduced a new, streamlined 'Brokerage' (intermediary) business category. These amendments came into force in June 2026.

This new licence category (defined as 'Electronic Payment Instruments and Crypto-Asset Service Intermediary Business') is tailored for entities that exclusively intermediate crypto-asset transactions and/or electronic payment instrument transactions without taking custody of customer funds, electronic payment instrument or crypto-assets. This regulatory carve-out, designed for the lower-risk profile of non-custodial businesses, aims to stimulate service development and align the crypto-asset sector with traditional financial markets.

Crucially, because these non-custodial intermediaries do not handle customer assets, they are expected to be exempt from key prudential and compliance obligations, including AML regulations, customer asset segregation requirements, and capital adequacy rules.

Separately, a further bill to migrate the regulation of crypto-asset transactions from the PSA to the FIEA passed the House of Representatives on 11 June 2026 and is expected to take effect in 2027. With respect to the 'Electronic Payment Instruments and Crypto-Asset Service Intermediary Business' introduced in the 2025 amendments to the PSA, the part relating to the intermediation of crypto-asset transactions will be incorporated into the FIEA as 'Financial Instruments Intermediary Business', while the part relating to the intermediation of electronic payment instrument

transactions will remain under the PSA as 'Electronic Payment Instruments Service Intermediary Business' under this proposed amendment.

CAESP registration process

The FSA has established stringent registration requirements, reflecting a clear policy emphasis on market stability and consumer protection over rapid, unchecked market entry. For prospective applicants, registration is not a mere administrative formality; it is an extensive, multi-stage undertaking demanding significant financial, operational, and strategic commitments.

Mandatory registration requirement

Article 63-2 of the PSA mandates that any person intending to provide crypto asset exchange services must first obtain registration from the Prime Minister (with authority delegated to the FSA Commissioner). Operating a crypto asset exchange business without such registration constitutes a criminal offence, subject to penalties.

This prohibition has extraterritorial implications: the PSA explicitly forbids unregistered foreign CAESPs from soliciting persons located in Japan, thereby establishing a clear jurisdictional boundary for the Japanese market.

Substantive requirements for applicants

The FSA's substantive review criteria are comprehensive; they collectively represent a high barrier to entry.

- *Capital and financial soundness:* Applicants must demonstrate a sound financial base, including minimum stated capital of JPY 10m and the continuous maintenance of a positive net worth.
- *Governance and personnel:* Applicants must establish a robust corporate governance structure, including well-defined internal rules and clear lines of authority and responsibility. The integrity and suitability of the management team are subject to intense scrutiny.
- *Business plan and operational framework:* A detailed and viable business plan is required. This must delineate the company's organisational structure, the scope of intended services, the specific crypto assets to be handled, comprehensive user protection measures, and financial projections.
- *System integrity and cybersecurity:* Considering Japan's history of significant exchange security breaches, the FSA rigorously assesses an applicant's information security management. The applicant must demonstrate that its systems are secure, resilient, and capable of protecting platform integrity, user data and customer assets.
- *AML/CFT framework:* The applicant must possess a fully developed and operational anti-money laundering/countering the financing of terrorism (AML/CFT) compliance programme. This includes robust systems and procedures for customer identification

(know your customer/customer due diligence (KYC/CDD)), transaction monitoring, and suspicious activity reporting (SAR) in accordance with the Act on Prevention of Transfer of Criminal Proceeds (APTCP).

Supervisory and enforcement regime

The regulatory framework for CAESPs is enforced through a multi-layered supervisory structure, combining direct government oversight with industry-led self-regulation. This dual approach subjects CAESPs to both high-level statutory requirements and industry-specific best practices.

The FSA serves as the ultimate supervisory authority, possessing extensive supervisory and enforcement powers. Concurrently, self-regulatory organisations (SROs), most notably the JVCEA, fulfil a critical co-regulatory function in daily governance and technical standard-setting.

Furthermore, as part of the investor-protection framework, the competent authority is empowered to order a CAESP to maintain a specified portion of its assets within Japan when it determines that such a measure is necessary and appropriate for the public interest or the protection of users. This mechanism ensures that, even in circumstances similar to the FTX incident – such as the insolvency or failure of a CAESP – the authority is to act swiftly to safeguard domestic users' assets and secure their prompt return.

7. AML and the Travel Rule in crypto asset transactions.

Japan has implemented a comprehensive, legally binding and fully enforceable regulatory framework governing AML/CFT obligations for VASPs. A pivotal element of this framework is the specific implementation of the 'Travel Rule' for crypto asset transfers. The primary legal instrument in this domain is the APTCP. The APTCP serves as the cornerstone of Japan's AML/CFT legislation, imposing foundational duties – such as CDD, transaction monitoring and STR – on designated financial institutions, including VASPs.

The Travel Rule was enacted through amendments to the APTCP and its subordinate ordinances and came into full force on 1 June 2023. A defining feature of Japan's implementation is its 'no threshold' policy. The obligation to collect, verify, and transmit originator and beneficiary information applies to all virtual asset transfers between VASPs, regardless of the transaction amount. The rule's core requirement obligates an originating VASP to collect, hold, and transmit specific information about both the originator (its customer) and the beneficiary to the beneficiary VASP concurrently with the crypto asset transfer. The specific data fields required vary based on the party's legal status (natural or legal person), as detailed below.

Originator/ beneficiary	Requirement for natural person	Requirement for legal person
Originator information	(1) Name (2) Residential address OR customer identification number (3) Blockchain address (or identifiable alphanumeric data)	(1) Name (2) Location of head office/ principal office OR customer identification number (3) Blockchain address (or identifiable alphanumeric data)
Beneficiary information	(4) Name (5) Blockchain address (or identifiable alphanumeric data)	(4) Name (5) Blockchain address (or identifiable alphanumeric data)

These obligations cover both domestic transfers between Japanese VASPs and cross-border transfers involving foreign counterparty VASPs. For cross-border transactions, however, Japan limits the Travel Rule's application. It applies only to transfers destined for VASPs in jurisdictions deemed to have equivalent Travel Rule regulations. From August 2026, the number of such jurisdictions will increase to 63, with the addition of five jurisdictions (Anguilla, Botswana, the Commonwealth of Dominica, Cuba and Oman).

Supervisory authority is principally vested in the FSA, the government regulator responsible for licensing, supervision and enforcement. The FSA's efforts are complemented by the JVCEA, which establishes detailed operational rules and standards for the industry.

8. Enforcement and cross-border recognition of tokenisation and structuring of secured transactions involving crypto assets.

We will use the example of a public offering of real estate security tokens in Japan.

In a public offering of real estate security tokens, the assets being tokenised are beneficial certificates of 'trust with certificates of beneficial interest' (*jueki-shouken-hakkou-shintaku* – 'JS Trust'). A JS Trust is a trust whose terms provide that beneficiary certificates are to be issued pursuant to the Trust Act. The JS Trust scheme for real estate security tokens is outlined as below.

The settlor, usually a special purpose company ('JS Settlor'), acquires real estate which is often in the form of real estate beneficial interests ('REBI') from the seller of the REBI and immediately transfers it to the trustee of the JS Trust ('JS Trustee') in accordance with the trust agreement ('JS Trust Agreement') which is entered into by and among JS Settlor, JS Trustee and the beneficiary's agent ('JS Beneficiary's Agent'). As a result, JS Settlor obtains beneficial interests in JS Trust including loan beneficial interests ('Loan BI') and beneficial interests to be tokenised (JSBI). JSBIs are

sold to investors as security tokens through securities firms. JS Settlor receives the sale proceeds of tokenised JSBI.

JS Trustee enters into a non-recourse loan agreement with a bank ('Lender') pursuant to which JS Trustee receives funds from the Lender. The Loan BI is immediately repaid from the said funds, that is, JS Settlor receives the repayment of the Loan BI.

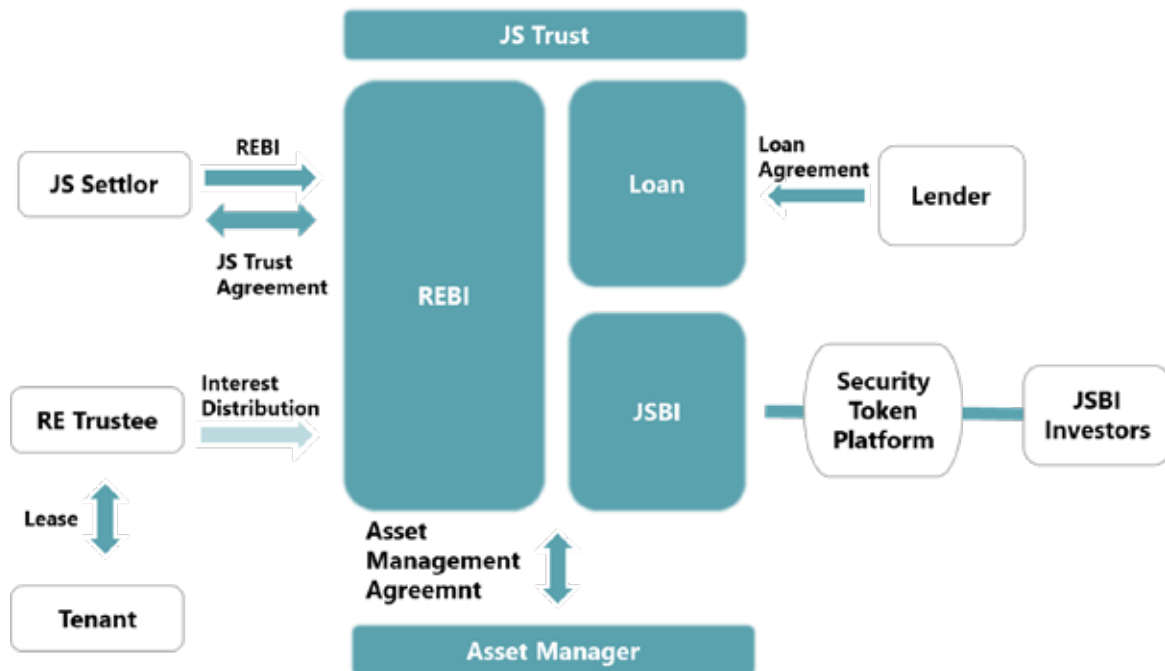
Consequently, JS Settlor makes payment of the purchase price for the REBI to the seller with the sale proceeds of tokenised JSBI and the repayment of the Loan BI.

Under the Trust Act a transferor must deliver the beneficiary certificate to a transferee at the time of transfer of a beneficial interest in a JS Trust, provided that, if the terms of JS Trust provide that a beneficiary certificate will not be issued, the transfer of beneficial interest is effective only by an agreement between the parties without delivery of certificates. Transfer of a beneficial interest in JS Trust can be perfected against JS Trustee and third parties if the name and address of the person who has acquired the beneficial interest has been recorded in the beneficial interest register. Beneficial interest registers can be managed digitally on the security token platform utilising blockchain technology, enabling the instantaneous transfer of tokenised JSBI and fulfilment of perfection in the platform.

JS Trustee enters into an asset management agreement with the asset manager that manages and operates the REBI which constitutes the trust property of the JS Trust, discloses information to investors, and handles lender relations. The period of JSBI is typically set at five to seven years. At the final calculation period, REBI is sold, and JS Trustee repays the loan and makes the final distribution of interest and redemption to JSBI holders by the sale proceeds of REBI. As the subject of the investment is specified real estate in the JS Trust scheme, the performance of tokenised JSBI depends on the performance of the real estate. Therefore, neither the principal nor interests of JSBI are guaranteed, and the final redemption amount depends on the sale price of the real estate. If the real estate price is not favourable at the time of the final calculation period, the period the JSBI may be extended by approximately two years at the asset manager's discretion.

Liquidity of tokenised JSBI is one of the risks for the investors. Japan has a secondary market for security tokens. While only seven real estate security tokens are traded on the private trading system operated by Osaka Digital Exchange at the time of writing, liquidity is expected to increase as the number of listed security tokens grows.

Subject to mandatory rules applicable in Japan and unless contrary to public order or good morals in Japan, the choice of a foreign law to govern a crypto asset-related contract is a valid and binding choice of law choice of law and would be recognised in any action brought before a court of competent jurisdiction in Japan.



9. Litigation and jurisdiction on crypto assets: legal implications of disputes involving crypto assets.

A foreign jurisdiction

The judgment of a foreign court may be enforced in a court of Japan, without further consideration of the merits of the case, only if all of the following conditions are satisfied:

- the judgment of a foreign court is duly obtained and is final and conclusive;
- the jurisdiction of the foreign court is recognised by the applicable Japanese laws, regulations, conventions or treaties;
- the defendant was served (excluding service by publication or similar service) with the requisite summons or order for the commencement of litigation, or appeared in the relevant proceedings in the foreign court without having been served;
- the content of the judgment and the litigation proceedings are not contrary to public policy in Japan;
- judgments of Japanese courts receive reciprocal treatment in the courts of the foreign jurisdiction concerned; and
- the dispute resolved by the foreign judgment has not been resolved by a judgment given by a Japanese court and is not being litigated before a Japanese court.

In general, parties may establish, by agreement, the country in which they are permitted to file an action with the courts, if all the following conditions are satisfied:

- an agreement on jurisdiction clauses is made regarding actions that are based on a specific legal relationship;
- an agreement on jurisdiction clauses is executed by means of a paper document or electronic records in which the content of an agreement is recorded;
- the courts of a foreign country provided in exclusive jurisdiction clauses are able to exercise jurisdiction by law or in fact;
- Japanese courts do not have exclusive jurisdiction under the laws of Japan; and
- jurisdictional clauses are not contrary to public policy in Japan.

Exclusive jurisdiction clauses

However, an agreement on jurisdiction clauses which covers consumer contract disputes that may arise in the future is valid only in the following cases:

1. if the agreement provides that an action may be filed with the courts of the country where the consumer was domiciled at the time the consumer contract was concluded (except in the case stated at (2), any agreement that an action may be filed only with a court of such a country is deemed not to preclude the filing of an action with a court of any other country); and
2. if the consumer, in accordance with that agreement, has filed an action with the courts of the agreed-upon country, or if an enterprise has filed an action with the Japanese courts or with the courts of a foreign country and the consumer has invoked that agreement.

10. Intellectual property and crypto assets: legal protection, ownership, enforcement and monetisation of IP rights related to digital and virtual assets.

Intellectual property rights

Intellectual property rights including patents, utility model rights, design rights and trademark rights can be exclusively implemented (used) for a certain period by filing an application with the Japan Patent Office and obtaining registration.

Furthermore, the Unfair Competition Prevention Act regulates unfair competition practices such as the theft of trade secrets and the unauthorised use of well-known or famous trademarks.

The Copyright Act defines a work as a creative expression of ideas or emotions that falls within the scope of literature, scholarship, art or music, and grants the author copyright as a right to prevent unauthorised use of the work. Copyright arises automatically upon creation of the work

and does not require registration like patent or trademark rights. Copyright includes 'copyright (economic rights)' protecting financial interests and 'moral rights' protecting the author's personal interests. Copyright can be transferred or inherited, but moral rights are inalienable and cannot be transferred.

Criteria for choosing foreign jurisdictions to protect intellectual property rights

Generally, in Japan, deciding foreign jurisdictions where protection should be sought is based on the following points:

- Countries or regions where the company plans to sell its products or services, manufacture, grant licences, or establish local subsidiaries in the future should be prioritised for acquiring intellectual property rights.
- In countries with high circulation of counterfeit goods or high intellectual property infringement risk, acquiring rights is recommended regardless of whether business expansion is planned.
- Countries with anticipated future market expansion or those currently possessing large markets also receive high priority.
- The legal framework and enforcement status of intellectual property protection in target countries are also critical factors. In countries with weak protection, the decision to acquire rights and the scope of technology transfer must be carefully evaluated.

NFTs and intellectual property rights

We will discuss the main legal issues using art non-fungible tokens (NFTs), which frequently involve intellectual property rights, as an example. In Japan, monetisation is possible by issuing or transferring art NFTs, or by operating platforms that facilitate trading of such NFTs.

Under Japanese civil law, the object of 'ownership' is limited to tangible property (movable and immovable property). As crypto assets and NFTs are intangible properties, they cannot be the subject of 'ownership'. NFT holders do not possess ownership of the NFT itself; they merely hold usage rights based on a contractual relationship with the NFT issuer.

If the digital content linked to an NFT (eg, an artwork) is protected by copyright, whether the NFT holder acquires the copyright depends on the terms of the contract with the NFT issuer. Unless the transfer of copyright is explicitly agreed upon, the NFT holder does not acquire the copyright and can only use the content within the scope of the licence granted.

In NFT transactions, it is common for the NFT issuer to define the conditions for using the digital content through terms of service or similar agreements. The NFT holder possesses the right to use the content within the scope defined by these terms of service (usage rights). While the transfer of usage rights is possible based on the contract, its effect is limited to the contracting parties.

Even when a transferee acquires usage rights to digital content through NFT transfer, the copyright itself is not transferred. If the transferee has not agreed to the terms of use, usage rights may not be recognised.

Issuing an NFT when the issuer is not the copyright holder or lacks a licence from the copyright holder may result in the NFT being an illegal reproduction and constitute copyright infringement.

The digital content linked to an NFT may be subject to intellectual property rights other than copyright, such as design rights, trademark rights or trade secrets. These rights are protected under separate laws, and when using or trading NFTs, it is necessary to verify the specifics of each right and the contractual terms.



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