

Japan Financial Intelligence
Center (JAFIC)

Annual Report 2010



National Police Agency

Introduction

Three years have passed since "the Act on Prevention of Transfer of Criminal Proceeds" fully came into effect, and specified business operators such as financial institutions have further enhanced their surveillance systems over anti-social forces, such as Bouryokudan, and transfer of illicit funds. As a result, the number of STRs increased to more than 290,000 in 2010, and they have been utilized for countermeasures against organized crime, including investigations into the money-laundering cases.

On the other hand, the services provided by the specified business operators have still been abused for money laundering. Furthermore, there have been some money laundering cases where proceeds of crime are transferred globally, which indicates that modus-operandi of money laundering has become more vicious and more sophisticated, and that money laundering cases become spread out. In consideration of those current situations, we may admit that our country's countermeasures against money laundering is still not sufficient.

Taking those situations into consideration, Japan Financial Intelligence Center, Organized Crime Department, Criminal Investigation Bureau, National Police Agency (hereinafter referred to as "JAFIC") (note), is making a comprehensive analysis of the reports filed by specified business operators and providing investigative authorities with intelligence promptly, while exchanging information with foreign FIUs so as to figure out the international framework of transfer of criminal proceeds. JAFIC is also mulling over new methods for further development of anti-money laundering measures. And during this process, JAFIC gives ample consideration to the report made by the "Council on customer due diligence measures by specified business operators for anti-money laundering". This Council was established in order to consider the ways of adequate customer due diligence measures, and it consisted of academic experts and practitioners.

It goes without saying that collaboration with specified business operators and the public is imperative to promote the anti-money laundering measures effectively. JAFIC will continue to advance the anti-money laundering measures with the understanding and support of not only specified business operators and competent authorities but also the public.

Lastly, it is our sincere hope that this annual report can be of some help for those engaged in AML measures and the public to understand the overall AML measures.

(Note)

Strictly speaking, administrative work related to the enforcement of the Act on Prevention of Transfer of Criminal Proceeds is carried out by the Director for Prevention of Money Laundering or an employee of the agency with such occupational title, but in this article, the organization, including employees of the agency, is described as the "Director for Prevention of Money Laundering" for convenience, except in special instances.

Furthermore, this organization is referred to under its common international title, JAFIC (Japan Financial Intelligence Center).

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Chapter 1

History of Anti-Money Laundering Measures

Money-Laundering activities, which hide the source or attribution of criminal proceeds is a highly covert activity, which is extremely difficult to detect.

The international society has been enhancing and developing systems to prevent and detect money laundering, as well as cooperating with each other to deal with this issue. Japan is also reinforcing anti-money laundering measures in line with international initiatives.

Various activities centered on the police described in this report have also delivered positive results through such international cooperation.

Section1 Anti-Money Laundering Measures in International Society

1 Anti-Money Laundering Measures as International Countermeasures against Narcotic Drugs

In the 1980s, the global spread of narcotics abuse was taken as a crisis in the international society. One of the main causes was the existence of transnational drug-trafficking organizations linking production of narcotics to the consumption of them. It was recognized as important to inflict damage on the source of their funds, by all measures, such as confiscating illegal proceeds from drug manufacturing and trafficking and effectively preventing their money laundering activities. In this context, "the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances" (hereinafter referred to as "UN New Narcotics Convention") was adopted in December 1988 and required each state to criminalize activities such as hiding drug crime proceeds and to establish relevant regulations to confiscate such proceeds, which made clear an internationally consistent effort.

In addition, at the Arch Summit in July 1989, the major developed countries decided to establish the FATF (Financial Action Task Force on Money Laundering) to take concerted actions for anti-money laundering. In April 1990, urged by the need for standardizing measures in different countries, the FATF proposed "The 40 Recommendations", as standards for anti-money laundering measures to be applied in the fields of law enforcement, criminal justice, and the financial system. "The 40 Recommendations" required early ratification of "the UN New Narcotics Convention", development of domestic laws stipulating anti-money laundering measures, and establishment of measures such as obligations to conduct customer identification and the report of suspicious transactions by financial institutions.

2 Anti-Money Laundering Measures as Countermeasures against International Organized Crime and Terrorism

In the 1990s, the international expansion of organized crime was recognized as a phenomenon which could threaten each country's security, and therefore an international convention against international organized crimes was considered mainly by the United Nations. At the Halifax Summit in June 1995, it was pointed out that effective measures to prevent the hiding of proceeds not only from drug-trafficking but also from serious crimes were necessary for successful countermeasures against transnational organized crimes. In accordance with these movements, the FATF revised, in June 1996, a part of "The

40 Recommendations," and recommended that the scope of predicate offences be extended from drug crimes to serious crimes.

Further, at the Birmingham Summit in May 1998, it was agreed by the participating countries to create FIUs (Financial Intelligence Units), which are dedicated to collect, analyze and disseminate money laundering information, as a measure to utilize the suspicious transaction reports for criminal investigation effectively.

Later, in response to the terrorist attacks in the US in September 2001, the FATF held an emergency session, where it issued "The 8 Special Recommendations" including criminalizing terrorist financing and freezing terrorist assets considering it necessary to include anti-terrorist financing measures within the scope of anti-money laundering measures. In 2004, a new recommendation related to the measure to prevent the physical cross-border transportation of funds was added to these recommendations, which made them "The 9 Special Recommendations".

3 Countermeasures to Sophistication of Modus Operandi of Money Laundering

In accordance with development of anti-money laundering measures, the trend of money laundering itself has also been changing. The FATF put the highest emphasis in its consideration on the hiding of funds using business sectors other than financial institutions. As a result, the FATF revised again in June 2003 "The 40 Recommendations" by extending the scope of operators required to take measures including customer identification, etc. The FATF has been studying new methods of money laundering engineered in various countries and regions in the world since then, such as money laundering using new payment systems, alternative remittance systems, trade-based money laundering, etc. and providing multiple advice on countermeasures through publishing reports and other methods.

Section2 Anti-Money Laundering Measures in Japan

1 Enforcement of "the Anti-Drug Special Provisions Law"

Anti-money laundering measures in Japan have been developed step by step in accordance with initiatives of the international society. Firstly, "the Law concerning Special Provisions for the Narcotics and Psychotropics Control Law, etc. and Other Matters for the Prevention of Activities Encouraging Illicit Conduct and Other Activities Involving Controlled Substances through International Cooperation" (hereinafter referred to as "the Anti-Drug Special Provisions Law") was enforced in 1992 as one of the domestic laws implementing "UN New Narcotics Convention", aiming mainly at dealing with drug crime proceeds. This law criminalized money laundering activities connected with drug crimes for the first time in Japan and established the suspicious transaction reporting system (regarding drug crime proceeds) by financial institutions, etc. in response to "the FATF 40 Recommendations."

2 Enforcement of the Act on the Punishment of Organized Crime

The FATF mutual evaluation of Japan in 1994 pointed out a negative view on the limit of predicate offences for money laundering to illegal drug crimes. It was difficult for financial institutions, etc. to determine if each transaction was actually related to drug crimes in reporting suspicious transaction, resulting in the fact that the suspicious transaction reporting system did not work effectively. To rectify these problems, the "Act on Punishment of Organized Crimes and Control of Crime Proceeds" (hereinafter referred to as "Act on the Punishment of Organized Crime") was adopted (enforced in Feb. 2000) in Japan based on the FATF recommendations as revised in June 1996. This law represented progress in regulations against criminal proceeds on several points.

One such progress is that the scope of predicate offences for money laundering was extended and the

other is that the scope of the crimes which are subject to the suspicious transaction reports regime was extended include other serious crimes besides illegal drug crimes. In addition, the law designated the Financial Supervisory Agency (later, the Financial Services Agency) as the FIU of Japan, where money laundering information shall be collected, arranged and analyzed to be disseminated to investigative authorities, etc.

3 Enforcement of "the Act on the Punishment of Financing of Offences of Public Intimidation" and "Customer Identification Act", and the Revision of "Act on the Punishment of Organized Crime"

As a major development after the terrorist attacks in US, the "Act on the Punishment of Financing of Offences of Public Intimidation" was adopted (enforced in July 2002) as a domestic law to implement "the International Convention for the Suppression of the Financing of Terrorism". At the same time as the adoption of the "Act on the Punishment of Financing Offences of Public Intimidation", the "Act on the Punishment of Organized Crime" was partly revised, so that the terrorist financing offence was included into predicate offences. Moreover, terrorist funds were stipulated as criminal proceeds, so financial institution, etc. shall report suspicious transactions pertaining to assets suspected of terrorist financing. Also, to implement the customer identification regime required under the said Convention and the FATF recommendations, "the Law on Customer Identification by Financial Institutions, etc." was adopted (enforced in Jan. 2003).

Because of frequent abuse of bank accounts under other or fictitious names for offences such as "Furikome" Fraud, the Law on Customer Identification by Financial Institutions, etc. was revised in Dec. 2004 as "the Act on Confirmation of Customers Identification by Financial Institution, etc. and Prevention of Unauthorized Use of Deposit Account, etc." (hereinafter referred as "the Customer Identification Act") that provides sanctions to selling and buying of passbooks, etc. soliciting, or the like.

4 Enforcement of "the Act on Prevention of Transfer of Criminal Proceeds"

Based on the fact that the FATF re-revised "The 40 Recommendations" in 2003 to extend the scope of business operators required to implement customer identification, etc. to operators other than financial institutions, "the Headquarters for Promotion of Measures Against Transnational Organized Crime and International Terrorism", with the Chief Cabinet Secretary as head thereof, publicized "the Action Plan for Prevention of Terrorism" including the implementation of the re-revised Recommendations in December 2004. In November 2005, "the Headquarters for the Promotion of Measures Against Transnational Organized Crime and International Terrorism" decided that the National Police Agency would make a draft of law for implementation of the re-revised Recommendations and that the FIU would be transferred from the Financial Services Agency to the National Public Safety Commission / the National Police Agency.

The National Police Agency drafted a bill in cooperation with relevant ministries and agencies and submitted it to the 166th National Diet session in February 2007. "The Act on Prevention of Transfer of Criminal Proceeds" was then adopted in March of that year. Partial enforcement of the law stipulating the transfer of the FIU was carried out in April of the same year, while the remaining, such as the extension of the scope of application to business operators required to implement customer identification was enforced in March, 2008.

Furthermore, the National Police Agency with the cooperation of concerned government ministries, amended the Act on Prevention of Transfer of Criminal Proceeds and its sub-regulations in order to appropriately respond to changes in social conditions. For example, the Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds was amended as a countermeasure for prevention of "Furikome" fraud which can be a predicate offence of money laundering. The content of

the amendment is that regarding the postal receiving service, identification of customer is to be verified, even though the contract includes an article which prohibits the receiving of postal items including cash, etc.(Enforced as of May 2009.)

The main amendments in 2010 will be detailed in Chapter 2 (Legal Systems of Countermeasures against Money Laundering)

History of Anti-Money Laundering Measures

Global Events	Events in Japan
December 1988 Adoption of "UN New Narcotics Convention" (Criminalization of money laundering activities related to illegal proceeds derived from drug crimes.)	
July 1989 Arch Summit (Adoption of the Establishment of FATF (Financial Action Task Force on Money Laundering))	
April 1990 FATF issued "the 40 Recommendations" - Customer identification by financial institutions - Reporting of suspicious transactions to financial regulatory authorities	June 1990 Notices issued on the requirement of customer identification, etc. (by the Director-General of the Banking Bureau, Ministry of Finance, etc.)
June 1996 FATF revised "the 40 Recommendations" - Extending the scope of predicate offences to serious crimes was made compulsory.	July 1992 Enforcement of "the Anti-Drug Special Provisions Law" (Creation of the "Suspicious transaction report" system relating to drug crime proceeds)
May 1998 Birmingham Summit (Agreement on establishment of FIU)	February 2000 Enforcement of "the Act on the Punishment of Organized Crime" (Extension of the scope of predicate offences to certain serious crimes, establishment of the Japan FIU, etc.)
September 2001 Terrorist attacks in the US	
October 2001 FATF issued "the Special Recommendations on terrorist financing" - Criminalization of terrorist financing, Reporting of suspicious transactions related to terrorism.	July 2002 With the enforcement of "the Act on the Punishment of Financing to Offences of Public Intimidation" and "the revised Act on the Punishment of Organized Crime", terrorist financing offence was added to predicate offences.
June 2003 FATF re-revised "the 40 Recommendations" -Application of Recommendations to non-financial businesses (real estate agents, dealers in precious metals, dealers in precious stones, etc.) and professions (lawyers, accountants, etc.)	January 2003 Enforcement of "the Customer Identification Act" (Obligation of identification of customers etc. by financial institutions etc. is legislated.)
	December 2004 "The Headquarters for the Promotion of Measures Against Transnational Organized Crime and International Terrorism" decided on "the Action Plan for Prevention of Terrorism".
	November 2005 "The Headquarters for the Promotion of Measures Against Transnational Organized Crime and International Terrorism" decided on "the Development of laws for implementation of the FATF Recommendations"
	March 2007 Adoption of "the Act on Prevention of Transfer of Criminal Proceeds"
	April 2007 Transfer of the function of FIU (from the Financial Services Agency to the National Public Safety Commission / the National Police Agency)
	March 2008 Enforcement of the customer identification obligation etc. to non-financial business operators etc.
	April 2010 Amendments of "the Act on Prevention of Transfer of Criminal Proceeds" (addition of funds transfer companies as specified business operators etc.)

Chapter 2

Legal Systems of Countermeasures against Money Laundering

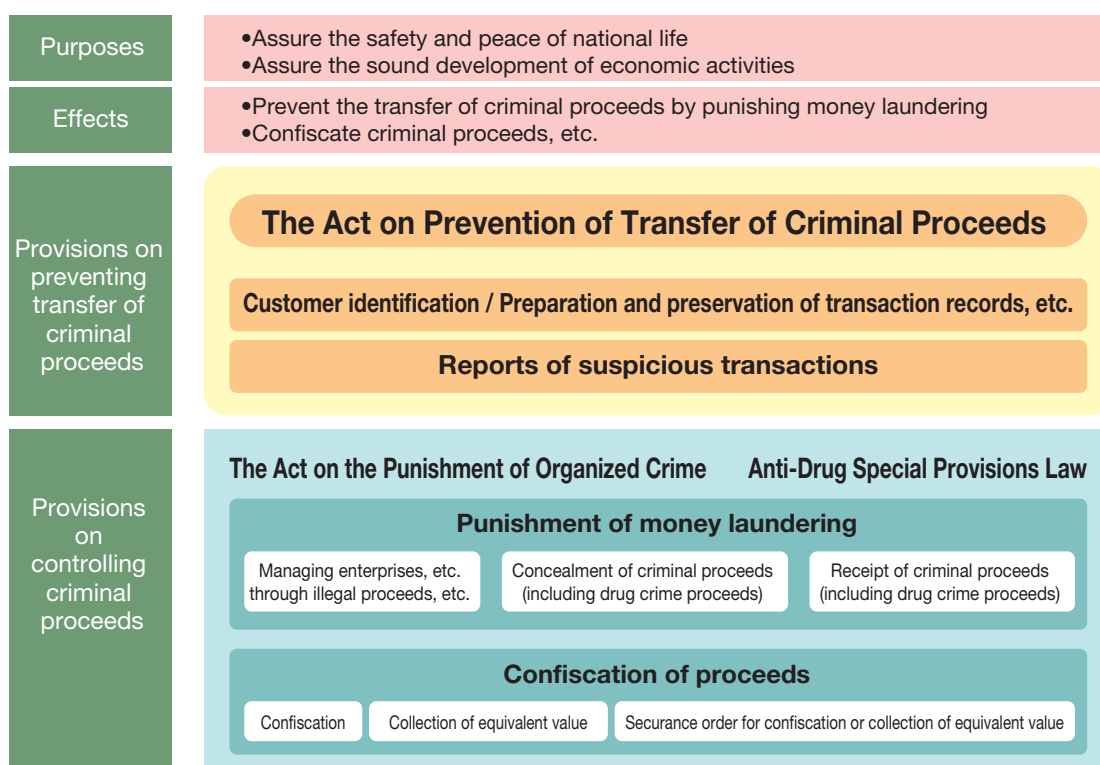
As described in the preceding chapter, legal systems on money laundering both in Japan and foreign countries have realized a gradual development since the 1980s and generally contain the following three elements:

- (1) Criminalization of money laundering
- (2) Confiscation of criminal proceeds
- (3) Obligation of a certain range of business operators to take preventative measures such as, customer due diligence.

Among these standards, (1) and (2) are aimed at the direct effects of weakening, in particular, the financial foundations of criminal organizations to target assets generated through crimes, while (3) is aimed at preventing money laundering itself by making it easier to trace the transfer of illegal funds and making it more difficult to avoid prosecution and confiscation.

In Japan the standards (1) and (2) above are realized mainly by the Anti-Drug Special Provisions Law and the Act on the Punishment of Organized Crime, and the standard (3) is realized by the Act on Prevention of Transfer of Criminal Proceeds.

Figure 2-1 Relationships of the Act on Prevention of Transfer of Criminal Proceeds, The Act on the Punishment of Organized Crime, and the Anti-Drug Special Provisions Law



Section 1 Recent Law Amendments

The Act on Prevention of Transfer of Criminal Proceeds and its sub-regulations, have been amended as needed, in order to respond to changes in social conditions and the amendment of other laws, from the viewpoint of preventing money laundering crime, etc.

1 Amendment of the Act on Prevention of Transfer of Criminal Proceeds according to the enactment of the Payment Services Act

According to the enactment of "The Payment Services Act" in April 2010, part of the Act on Prevention of Transfer of Criminal Proceeds was amended. By the enactment of the Payment Services Act, exchange transactions which only certain financial agencies such as banks used to be authorized to deal with may also be carried out by fund transfer service providers. Since it is possible to use exchange transactions for money laundering and terrorism financing, the Act on Prevention of Transfer of Criminal Proceeds has been amended, and fund transfer service providers are added to specified business operators, so they have obligation to verify customer identification, to prepare and preserve transaction records, etc., and to report suspicious transactions.

Moreover, from the standpoint of countermeasures for "Furikome" fraud, etc., activities such as receiving passbook, etc., with the intention of dealing with specified business operators while using fake identities have become punishable under the Act on Prevention of Transfer of Criminal Proceeds. Also, exchange transactions carried out by fund transfer service providers is very similar to exchange transactions using passbook, etc. in that both can be used for receiving the transferred money, and misuse and impersonation are expected in the criminal cases such as "Furikome" Fraud, so according to the enactment of the Payment Services Act, the same penal provisions were set for activities such as receiving and transferring exchange transaction card, passwords, ID, etc., needed to carry out exchange transactions by fund transfer service providers.

2 Amendment of the Act on prevention of Transfer of Criminal Proceeds according to the enactment of the Commodity Exchange Act and the Act for Regulation of Business Concerning Commodities Investment

In January 2011, the Act on the Prevention of Transfer of Criminal Proceeds and the order for Enforcement of the Act on the Prevention of Transfer of Criminal Proceeds were partially amended, according to the enactment of the partial revision of the Law regarding the Commodity Exchange Act and the Act for Regulation of Business Concerning Commodities Investment"(hereinafter referred as "Amended Commodity Exchange Law.").

Since the "Commodity Exchange Act" was changed to the "Commodity Futures Trading Act," and "commission house" was changed to "commodity futures trader," due to the enactment, etc., of the Amended Commodity Exchange Law, and since these words were quoted in the Act on Prevention of Transfer of Criminal Proceeds and the order for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds, they were appropriately changed. Regarding operations carried out by commodity futures traders, actions of performing as 1) "an intermediary or representative for transaction commissions on the domestic commodity market" were newly added and those as 2) "an intermediary, agent, or representative for entrustment or consignment relating to transactions on the foreign commodity market," and 3) "those of conducting a part of open stock derivative transactions or of performing as an intermediary agent or representative for such transactions" were prohibited except by commodity futures traders. Therefore, these actions were added subsequently to specified business affairs and specified transactions subject to customer identification obligation as regulated in the order for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds.

Section2 Outline of the Anti-Drug Special Provisions Law and The Act on the Punishment of Organized Crime

1 Anti-Drug Special Provisions Law

As described in Chapter 1, the Anti-Drug Special Provisions Law was enacted for the purpose of blocking cycles of illegal proceeds derived from drug crimes, directly triggered by the UN New Narcotics Convention adopted in 1988 and the FATF "40 Recommendations" issued in 1990, and enforced on July 1, 1992. This law contains two items with regard to measures against drug crime proceeds as below.

The Anti-Drug Special Provisions Law included, at the time of enactment, provisions on reports of suspicious transactions, which have been taken over by the Act on the Punishment of Organized Crime, then by the Act on Prevention of Transfer of Criminal Proceeds.

(1) Punishment of money laundering

The Anti-Drug Special Provisions Law defines the act of money laundering as a new crime in that it has such aspects as encouraging further (drug) crimes.

a. Concealment of drug crime proceeds, etc. (Article 6)

The following acts are criminalized by this article: (i) Act of "disguising facts with respect to acquisition or disposition of drug crime proceeds, etc." (ii) Act of "concealing drug crime proceeds, etc." and (iii) Act of "disguising facts with respect to the source of drug crime proceeds, etc."

Examples of the act (i), "Act of disguising facts with respect to acquisition" is the act of depositing drug crime proceeds, etc. under the name of another person, the act of manipulating the books by pretending profits were gained by legitimate business activities, or the like.

An example of the act (i), "Act of disguising facts with respect to disposition" is the act of purchasing goods under the name of another person, using drug crime proceeds, etc. or the like.

Examples of the act (ii), "concealing" is actions such as physically concealing and sending money to a country or region where it is considerably difficult to trace the funds, or the like.

An example of the act (iii), "Act of disguising facts with respect to the source" is the drug purchaser's act of pretending the payment for purchase is a repayment of a fictitious debt.

b. Crime of receipt of drug crime proceeds, etc. (Article 7)

The act of "knowingly receiving drug crime proceeds, etc." is criminalized by this article.

An act in which a main member of Boryokudan group receives money as part of a protection racket, knowing that the money has been obtained from drug crime, is an example of this case.

(2) Confiscation, collection of equivalent value and security measures (Article 11 through 13, 19, 20)

Drug crime proceeds shall be confiscated. If it cannot be confiscated because, for example, it has already been consumed or the right thereof has been transferred, collection of equivalent value will be ordered. The system of confiscation and collection of equivalent value provided in Anti-Drug Special Provisions Law has been strengthened compared to the existing system of confiscation and collection of equivalent value in the Penal Code in that the target is not limited to tangible property, but is extended to deposit claims, etc. and that confiscation and collection of equivalent value are compulsory. Moreover, it can be prohibited by court order to dispose of drug crime proceeds which should be confiscated prior to court decision in order to ensure the confiscation of the proceeds. As the risk of disposal by a criminal will be raised if he/she knows of the commencement of investigation, the court can issue a security order even before the prosecution upon request of a police officer, etc. with a fixed period of 30 days, which could be renewable.

2 The Act on the Punishment of Organized Crime

As described in Chapter 1, The Act on the Punishment of Organized Crime was enacted based on the extension of predicate offences in the revised FATF "40 Recommendations" and the international agreement on the establishment of an FIU, and was enforced in February 2000. In terms of criminal proceeds regulations, this law is characterized by the extension of the scope of predicate offences from drug crimes stipulated in the Anti-Drug Special Provisions Law to certain serious crimes.

(1) Punishment of money laundering (Article 9 through 11)

According to the Act on the Punishment of Organized Crime, in addition to acts of disguising, concealing, and receiving stipulated in the Anti-Drug Special Provisions Law, changing a director, etc. as a means of managing an enterprise, etc. by using criminal proceeds shall be punished as another type of money laundering crime. The scope of crime which generates criminal proceeds is stipulated in the attachment of the Act on the Punishment of Organized Crime.

(2) Confiscation, collection of equivalent value and security measures (Article 13 through 16, 22, 23, 42, 43)

The system of confiscation and collection of equivalent value provided in the Act on the Punishment of Organized Crime is subject to the discretion of the court, unlike the system provided in the Anti-Drug Special Provisions Law. However, it has been strengthened compared to the existing system in the Penal Code in that the target is extended to monetary claims, assets obtained as the fruit of criminal proceeds are also within the scope, security measures have been established, and so on.

At the time of the enactment of the Act on the Punishment of Organized Crime, it was stipulated that so-called "Crime victim property", such as proceeds obtained through crime concerning property, etc. may not be confiscated in consideration of damage claims by victims. However, the law was partially revised (enforced in Dec. 2006) to enable confiscation in certain cases where the crime is considerably organized or it will be difficult to recover the damage by civil proceedings due to money laundering or other reasons.

Section 3 Outline of the Act on Prevention of Transfer of Criminal Proceeds

As described in Chapter 1, the Act on Prevention of Transfer of Criminal Proceeds is a new act created on the basis of existing acts, i.e. the whole part of the Customer Identification Act and a part of the Act on the Punishment of Organized Crime and also in response to the revised FATF "40 Recommendations" of 2003 and sophistication of money laundering techniques. The act provides for a system to prevent transfer of criminal proceeds, including customer identification, preparation and preservation of transaction records, suspicious transaction reporting, etc. to be implemented by a certain range of business operators.

For the fundamental structure of the act, please refer to Fig. 2-3.

1 Purpose of the Act (Article 1)

The purpose of this act is to prevent the transfer of criminal proceeds and to ensure the appropriate enforcement of international treaties concerning the prevention of financing terrorism, etc. and thereby, to ensure the safety and peace of national life and to contribute to the sound development of economic activities by way of devising such measures as the identification of customers, preservation of transaction records or the like, and reporting of suspicious transactions by specified business operators, as described in 3, coupled with other measures stipulated by the Act on the Punishment of Organized Crime and the Anti-Drug Special Provisions Law.

2 Criminal Proceeds (Paragraph 1 of Article 2)

The term "criminal proceeds" as used in this Act means criminal proceeds, etc. prescribed in Article 2, paragraph 4 of the Act on the Punishment of Organized Crime or drug-related criminal proceeds, etc. prescribed in Article 2, paragraph 5 of the Anti-Drug Special Provisions Law.

3 Specified Business Operators (Paragraph 2 of Article 2)

Business operators, required to take measures like customer identification by this act, are called "Specified business operator," the scope of which is defined in line with the FATF Recommendations as well as in consideration of business practices in Japan. Generally, financial institutions, etc. had already been obliged to undertake identical measures by the Customer Identification Act (abolished by enforcement of the Act on Prevention of Transfer of Criminal Proceeds) and other regulations.

○Financial institutions, etc. (Item 1 through 33):

Bank; Shinkin bank; Federation of Shinkin banks; Labor bank; Federation of labor banks; Credit cooperative; Federation of credit cooperatives; Agricultural cooperative; Federation of agricultural cooperatives; Fishery cooperative; Federation of fishery cooperatives; Fishery processing cooperative; Federation of fishery processing cooperatives; Norinchukin Bank; Shokochukin Bank; Development Bank of Japan; Insurance company; Foreign insurance company, etc.; Small-claims/short term insurance business operator; Federation of fishery cooperatives for mutual aid; Financial instruments business operator; Securities finance company; Specially permitted business notifying person; Trust company; Self-trusted companies; Real estate specified joint enterprise operator; Mutual loan company; Money lender; Call money market broker; Funds transfer services provider, Commodity futures trader; Book-entry transfer institution; Account management institution; electronic receivables recording organizations; Management Organization for Postal Savings and Postal Life Insurance; Currency exchanging operator

○Financial leasing operator (Item 34)

○Credit card operator (Item 35)

○Real estate agent (Item 36)

○Dealers in precious metals and stones (Item 37)

○Postal receiving service providers or Telephone receiving services provider (Item 38)

○Lawyer or legal profession corporation (Item 39)

○Judicial scrivener or judicial scrivener corporation (Item 40)

○Certified administrative procedures specialist or administrative scrivener corporation (Item 41)

○Certified public accountant or audit firm (Item 42)

○Certified public tax accountant or certified tax accountant corporation (Item 43)

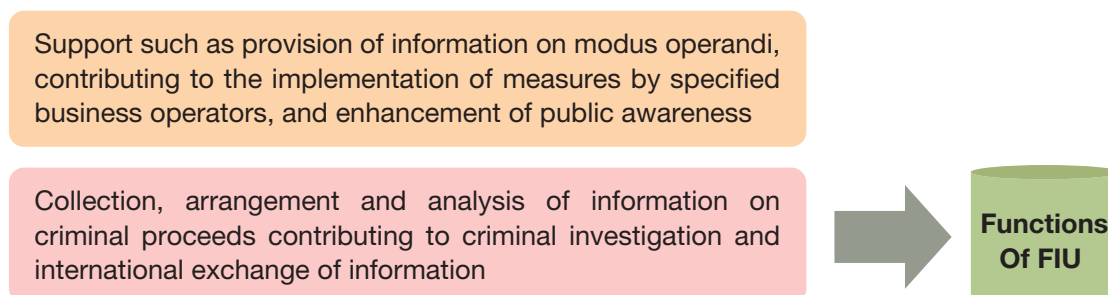
4 Responsibilities of the National Public Safety Commission and FIU (Article 3)

This Act provides that the National Public Safety Commission has responsibilities to endeavor 1) to enhance public awareness on the importance of the prevention of the transfer of criminal proceeds in order to ensure specified business operators take appropriate actions, and 2) to promptly and appropriately collect, arrange and analyze information on criminal proceeds including information on suspicious transactions reported by specified business operators so that such information can be effectively utilized in criminal investigation and related international cooperation.

Government organs that perform collection, arrangement and analysis of suspicious transaction

reports and disseminate them to investigative authorities are generally called FIUs (Financial Intelligence Units). Japanese FIU used to belong to the Financial Services Agency. Under the new law, the National Public Safety Commission took over this function from the Financial Services Agency, in connection with the extension of the scope of specified business operators. For this purpose, the Japan Financial Intelligence Center (JAFIC) was established in the National Police Agency, in charge of police administration under the control of the National Public Safety Commission, on April 1, 2007. The outline of the structure of JAFIC will be detailed in Chapter 3.

**Figure 2-2 Responsibilities of the National Public Safety Commission
(Article 3 of the Act on Prevention of Transfer of Criminal Proceeds)**



5 Measures by Specified Business Operator

By the act, specified business operator is obliged to conduct the following:

(1) Customer Identification (Article 4)

In conducting a certain transaction, verify identification data of a customer such as the name and domicile by asking for his/her driver's license or other identification documents;

(2) Preparation of customer identification records (Article 6)

Prepare and keep the record of identification data and measures taken for customer identification, etc. for seven years;

(3) Preparation of transaction records, etc. (Article 7)

Prepare and keep the record of the date and contents, etc. of transactions concerned for seven years;

(4) Reporting of suspicious transactions (Article 9)

Report transactions that are suspected of being related to criminal proceeds to the competent authority, except for judicial scriveners, certified administrative procedures specialists, certified public accountants, certified public tax accountants and lawyers;

(5) Notification pertaining to foreign exchange transactions (Article 10)

In conducting a cross-border payment, notify the receiving institutions of certain items such as the name and the account number. This article is applied only to financial institutions, etc., that can conduct exchange transactions;

(6) Measures by lawyers (Article 8)

It is established by special provision, that lawyers shall conduct measures relevant to those described in (1) through (3) above based on The Rule of the Japan Federation of Bar Associations in line with cases of judicial scrivener, etc.

These obligations are classified by the types of business operators in Table 2-1. Also, "Specified Business Affairs" subject to obligations and "Specified Transactions" subject to customer identification obligation are listed in Table 2-2.

Customer identification, preparation and preservation of customer identification records and transaction

records described in (1) through (3) above are expected to work as warnings against persons who attempt to transfer criminal proceeds and to enable tracing proceeds afterwards.

Suspicious transaction reports described in (4) will be used for investigations into money laundering crimes and predicate offences and will prevent criminals from abusing economic and financial systems, so that its soundness Can be assured.

The purpose of notification pertaining to foreign exchange transactions described in (5) is to enable tracing funds internationally and also to respond to the FATF Special Recommendations regarding terrorist financing.

Table 2-1 Measures of Specified Business Operators Obligated by the Act

Specified Business Operators (Paragraph 2 of Article 2)	Customer identification (Article 4)	Preparation and preservation of customer identification records (Article 6)	Preparation and preservation of transaction records (Article 7)	Reporting of suspicious transactions (Article 9)	
Financial Institutions, etc. (Item 1 through 33)	○	○	○	○	
Financial Leasing Operators (Item 34)					
Credit Card Operators (Item 35)					
Real Estate Agents (Item 36)					
Dealers in Precious Metals and Stones (Item 37)					
Postal Receiving Service Providers (Item 38)					
Telephone Receiving Service Providers				X	
Judicial Scrivener (Item 40)					
Certified Administrative Procedures Specialists (Item 41)					
Certified Public Accountant (Item 42)					
Certified Public Tax Accountants (Item 43)					
Lawyer (Item 39)					To be prescribed in the Rules of the Japan Federation of Bar Associations in line with cases of judicial scriveners, etc. (Article 8)

Table 2-2 Scope of "Specified Business Affairs" Subject to Obligations and "Specified Transactions" Requiring Customer Identification

	Specified Business Affairs	Specified Transactions
Financial Institutions, etc.	Business affairs conducted by financial institutions, etc. (limited to business affairs regarding finance)	Conclusion of deposit/savings contracts (which means contracts for the acceptance of deposits or savings), large cash transactions exceeding 2,000,000 yen, cash remittance exceeding 100,000 yen, etc.
Financial Leasing Operators	Financial leasing business affairs (limited to transactions which cannot be terminated earlier than the end of a contract, and to cases where the lessor enjoys the benefit associated with use of leased product and bears the cost)	Conclusion of lease contracts of goods whose lease fee exceeds 100,000 yen per payment
Credit Card Operators	Credit card business affairs	Conclusion of contracts for the delivery or issuance of credit cards
Real Estate Agents	Business affairs which pertain to the buying and selling of building lots or buildings, or agent work or intermediation thereof	Conclusion of contracts for buying and selling building lots or buildings, or agent work or intermediation thereof
Dealers in Precious Metals and Stones	Business affairs which pertain to the buying and selling of precious metals (gold, platinum, silver and alloy of these metals) and jewelry (diamond and other precious stones, semiprecious stones and pearls)	Conclusion of contracts for buying and selling precious metals, etc. whose payment amount exceeds 2,000,000 yen by cash
Postal Receiving Service Providers	Business affairs for providing a service of receiving postal mail on behalf of a customer	Conclusion of contracts for the provision of service *Conclusion of contracts including a clause stating that a postal mail without description on the destination such as a company name, with which one could easily recognize the receiver as the agent, will not be received is excluded.
Telephone Receiving Service Providers	Business affairs for providing a service for receiving telephone calls on behalf of a customer	Conclusion of contracts for the provision of service *Conclusion of a contract including a clause stating that the operator will clearly specify the company name of the agent when receiving a telephone call is excluded. *Conclusion of a contract for call center business, etc. is excluded.
Judicial Scrivener Certified Administrative Procedures Specialists Certified Public Accountant Certified Public Tax Accountants	Business affairs which pertain to agent or deputy work for the following acts: - Acts or procedures concerning the buying and selling of building lots or buildings - Acts or procedures concerning the establishment, merger, etc. of companies, etc. - Management or disposition of cash, deposits, securities and other property * Payment of tax, penalty, fine, etc. is excluded. * Management or disposition of others' property as a duty of a person appointed by the court or the competent administrative authority, such as a guardian of an adult, etc. is excluded.	Conclusion of contracts for carrying out agent work, etc. for the following acts - Acts or procedures concerning the buying and selling of building lots or buildings - Acts or procedures concerning the establishment, merger, etc. of companies, etc. - Management or disposition of cash, deposits, securities and other property whose value exceeds 2,000,000 yen * Conclusion of a contract for a voluntary guardian is excluded.
		A transaction with a customer already identified is excluded, however, transaction suspect of in the guise of another person is not excluded.

6 Dissemination of Information on Suspicious Transactions (Article 11 and 12)

In order to make use of information on suspicious transactions for domestic and overseas investigation, etc., the National Public Safety Commission may disseminate information to authorities in charge of investigating criminal cases such as public prosecutors assistant officers to prosecutors, judicial police officials (police officers, narcotics control agents, coast guards), customs officers and personnel of the Securities and Exchange Surveillance Commission and to a foreign FIU under certain conditions. The STR regime will be detailed in Chapter 4 (Reports of Suspicious Transactions) and Chapter 5 (Promotion of International Cooperation).

7 Supervisory Measures (Article 13 through 17, 23, 24, 27)

The law provides inspection power to competent administrative authorities so that they can detect irregularities by specified business operators. The authorities can also employ various supervisory methods, etc. such as guidance, advice, suggestion, and order for rectification in the case of violation for a better compliance by specified business operators. Persons who have failed to submit reports or materials, or submit false reports or materials, or who refused on-site inspections, shall be punished with imprisonment with labor for not more than one year or a fine of not more than three million yen. A person who violates an order for rectification shall be punished with imprisonment with labor for not more than two years or a fine of not more than three million yen.

Moreover, to complement supervisory function, the National Public Safety Commission is authorized to state its opinion to competent administrative authorities (and make necessary inspections on business operators) when it detects violations.

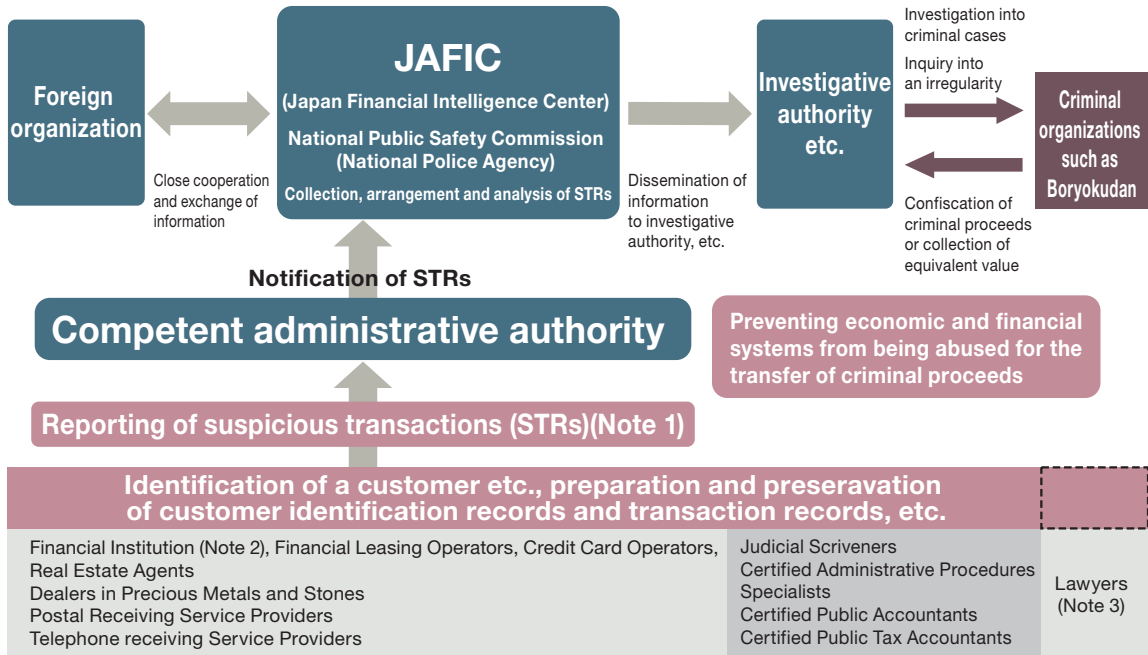
8 Penal Provisions regarding Reception/Delivery/Provision of Deposit/Savings Passbooks, Exchange Transaction Cards, etc. (Article 26, 27)

Sold or bought deposit/savings passbooks, ATM cards, Exchange Transaction Cards, etc. can be sold, bought, and misused in various crimes such as money laundering. In order to prevent this, this act regulates persons who take over, receive or obtain a deposit/savings passbook, etc. for value or for free, shall be punished by a fine of not more than 500,000 yen and a man who has committed, as a business, these crimes shall be punished by imprisonment with work for not more than 2 years or a fine of not more than 3,000,000 yen (optional cumulative imposition).

Furthermore, persons who invite or solicit another party to assign, deliver or provide a deposit/savings passbook, etc., for value or onerously, shall be punished by a fine of not more than 500,000 yen.

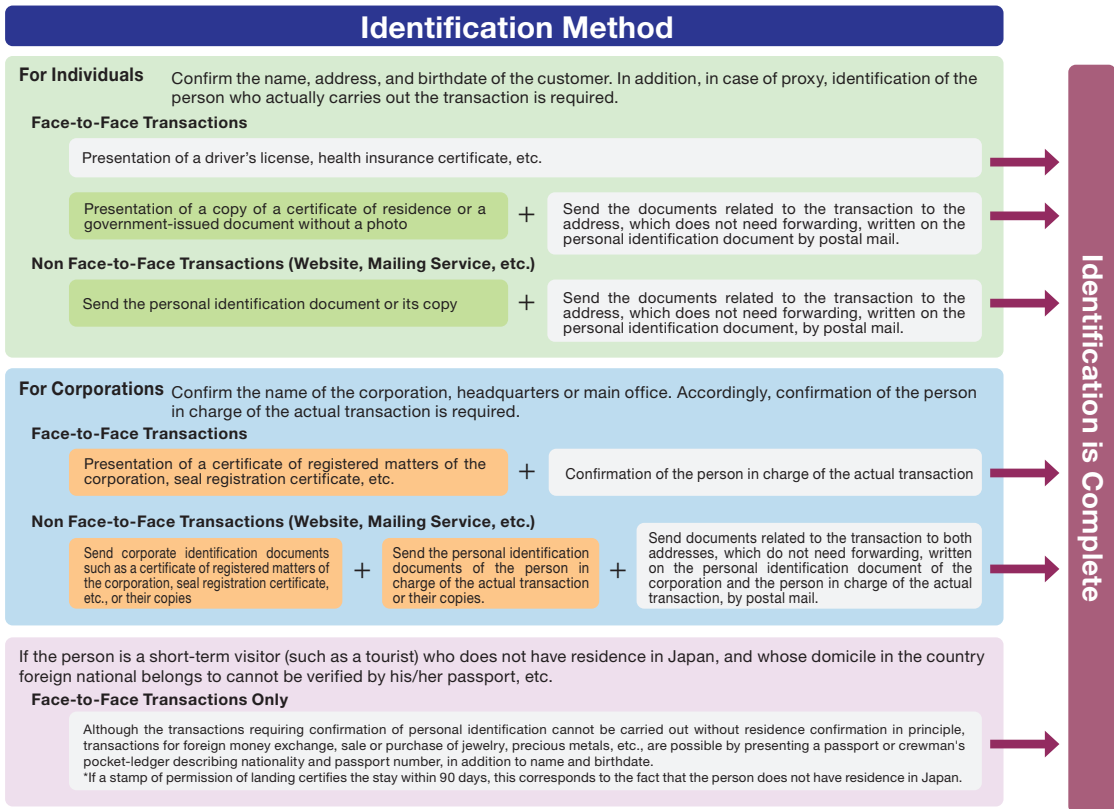
In addition, the penal provision regarding receiving sold or bought Exchange Transaction Cards (Article 27), etc. is a newly established regulation according to the amendment of the Act on Prevention of Transfer of Criminal Proceeds in April 2010, as described in Section 1-1 of this Chapter.

Figure 2-3 Outline of the Act on Prevention of Transfer of Criminal Proceeds



Note 1: Lawyers, Judicial Scriveners, Certified Administrative Procedures Specialists, Certified Public Accountants and Certified Public Tax Accountants are not subject to the obligation of suspicious transaction reporting.
 Note 2: Among financial institutions, business operators involved in exchange transactions are obliged to notify information on money senders.
 Note 3: Measures by lawyers corresponding to the measures of customer identification, preparation and preservation of customer identification records and transaction records shall be prescribed by the Rules of the Japan Federation of Bar Associations undertaken in line with cases of judicial scriveners, etc. set forth by the Act on Prevention of Transfer of Criminal Proceeds.

Figure 2-4



Chapter 3

Establishment of the Japan Financial Intelligence Center (JAFIC) and Police Activities

On April 1, 2007, JAFIC was established within the Organized Crime Department, the Criminal Investigation Bureau of the National Police Agency, when the Act on Prevention of Transfer of Criminal Proceeds came into force. JAFIC is an institution playing a central role in the enforcement of the said law mainly by collecting, arranging and analyzing suspicious transaction reports (STRs) filed by specified business operators and disseminating such information to public prosecutors, etc. As shown in the structure of the Act on Prevention of Transfer of Criminal Proceeds, understanding and cooperation of the public, especially specified business operators are indispensable for JAFIC to exercise its function.

Section1 Background of Establishment of JAFIC

Many countries have institutions equivalent to JAFIC. They are generally called FIUs (Financial Intelligence Units). Egmont Group, established in 1995 as a forum for exchanging information between FIUs, defines an FIU as a "central, national agency responsible for receiving, analyzing and disseminating to the competent authorities, disclosures of financial information: (1) concerning suspected proceeds of crime and potential financing of terrorism, or (2) required by national legislation or regulation, in order to combat money laundering and terrorism financing".

In Japan, although reporting suspicious transactions was made obligatory by the Anti-Drug Special Provisions Law, which came into effect in July 1992, it did not establish the system for centralization and dissemination of the information. Japan's first FIU was established within the Financial Supervisory Agency (reorganized into the Financial Services Agency in July 2000), when the Act on the Punishment of Organized Crime came into effect in February 2000, and it had the responsibility to handle information on suspicious transaction and exchange information with foreign counterparts under this Act.

The scope of suspicious transaction reports was to be extended as well, as the scope of business operators required to rate anti-money laundering measures was extended by the Act on Prevention of transfer of Criminal Proceeds from financial institutions etc. to those and real estate agents, dealers in precious metals and stones, etc. Therefore, it was thought that not the Financial Service Agency which supervises financial institutions, but the National Police Agency which makes use of reported information for investigation or countermeasures against organized crime and terrorism is suited for the renewed function of FIU which centers on arrangement and analysis of the extended STRs.

This idea was unveiled in November 2005, when Government's "Headquarters for the Promotion of Measures against Transnational Organized Crime and Other Relative Issues and International Terrorism" decided to draft the bill of the new AML/CFT law

The Act on Prevention of Transfer of Criminal Proceeds clarified that the National Public Safety Commission (NPSC), which controls the National Police Agency and is aided by it, is responsible for prompt and appropriate collection, arrangement and analysis of suspicious transaction reports filed from specified business operators. The Act also granted the NPSC a function related to the handling of STRs including

their dissemination to foreign FIUs as well as a function to complement supervisory measures against specified business operators. JAFIC was established within the Organized Crime Department, the Criminal Investigation Bureau of the National Police Agency, as a new Japan's FIU to perform these functions.

Section2 Mission and Structure

JAFIC is in charge of the following tasks provided in the Act on Prevention of Transfer of Criminal Proceeds:

- Collection, arrangement, analysis and dissemination of information on suspicious transactions to investigative authorities, etc.
- Dissemination of information to foreign FIUs;
- Provision of information and complement of supervisory measures by administrative authorities to ensure that specified business operators take required measures;

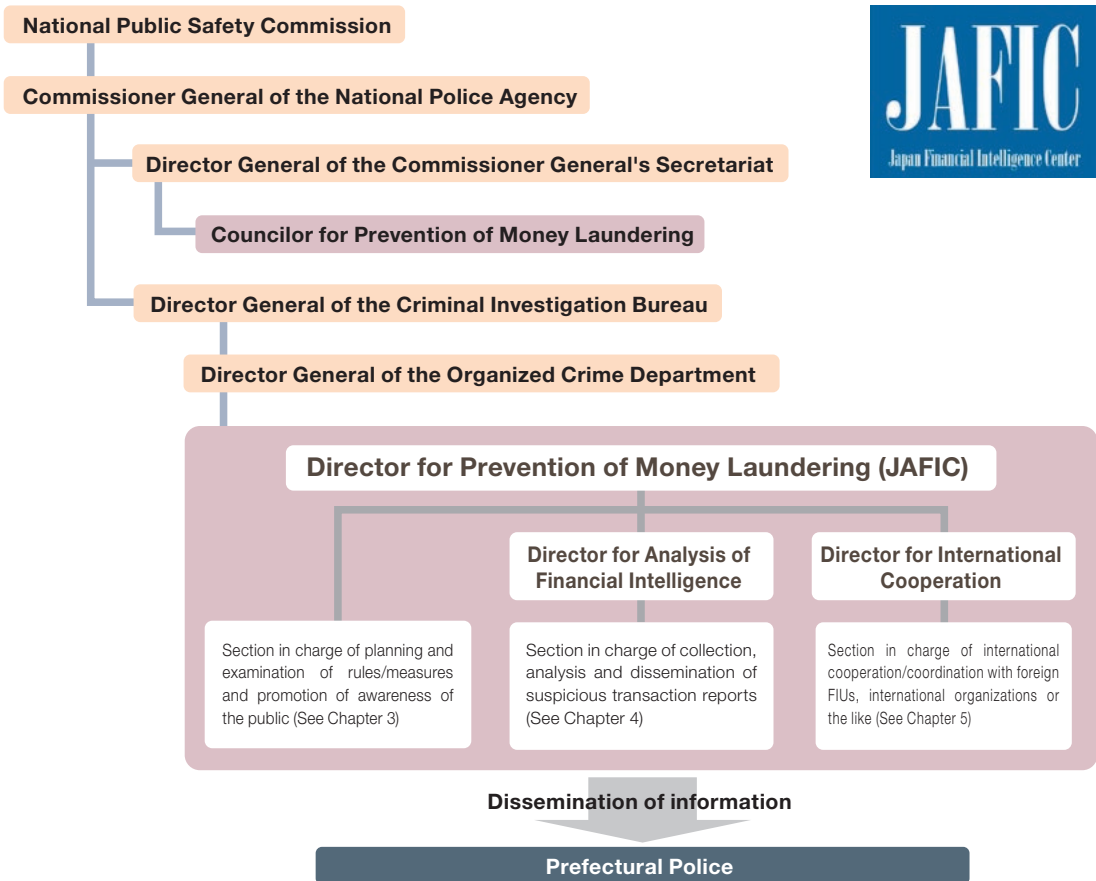
JAFIC also plans and examines the legal system related to AML and various measures such as "the Guideline for Promotion of the Criminal Proceeds Control", etc. described in Section 4. It also participates in discussion of international standards related to AML measures.

Among these tasks, the status of the analysis and dissemination of STRs will be explained in Chapter 4, while cooperation with foreign FIUs and international institutions will be described in Chapter 5.

The structure of JAFIC is illustrated in Fig. 3-1. It is currently composed of about 80 employees under the Director for prevention of Money Laundering.

On the other hand, the "Task Force specializing in resolving criminal proceeds" is established in each Prefectural Police in charge of tracing criminal proceeds and investigating money laundering crimes, etc.

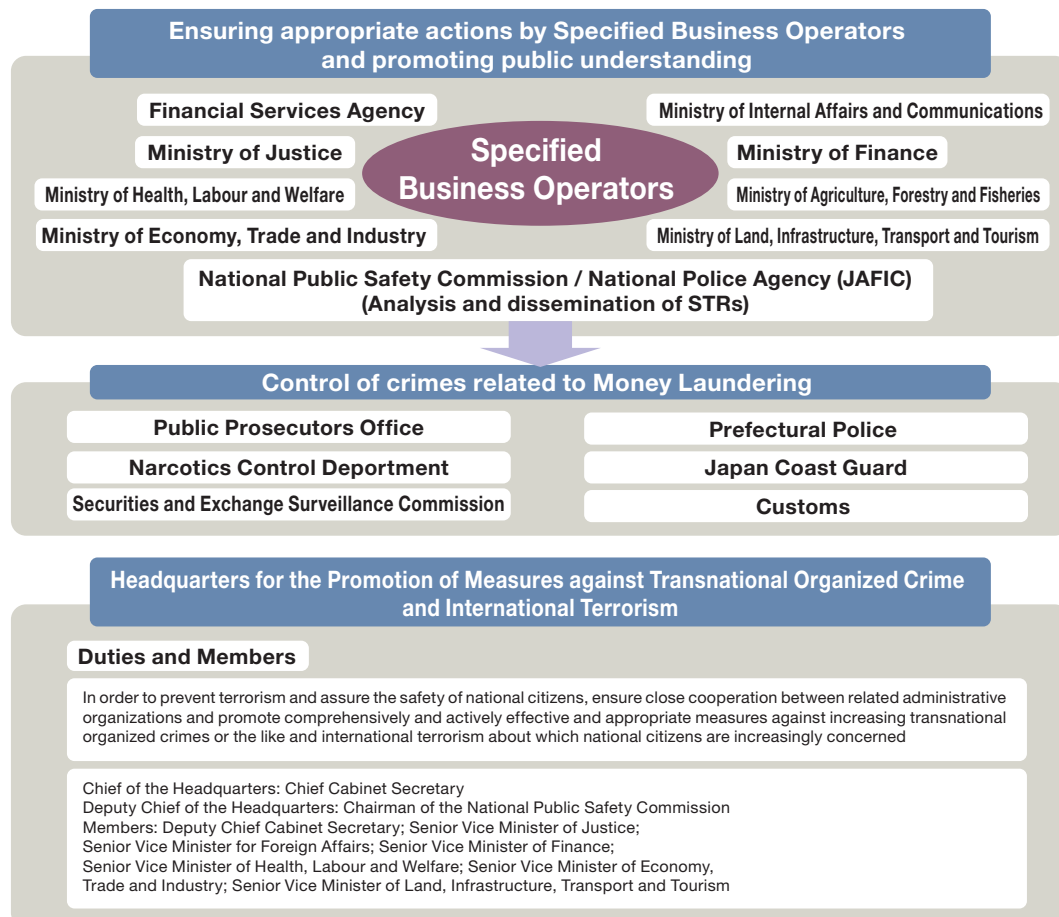
Figure3-1 Structure of JAFIC



Section3 JAFIC and Partners

Specified business operators including financial institutions should take initial anti-money laundering measures according to the Act on Prevention of Transfer of Criminal Proceeds. As stated in this chapter separately, in addition to the analysis of financial intelligence, JAFIC endeavors to publicize the actual conditions of money laundering and legal systems and relevant countermeasures so that specified business operators can take the proper actions and gain cooperation from the public. Relevant ministries and agencies in charge of supervising business operators not only exercise the supervisory function to secure the fulfillment of obligations, but also provide supports by issuing Lists of Reference Cases of Suspicious Transactions and holding seminars in cooperation with industry organizations. On the other hand, investigative authorities, such as the police, detect money laundering offences and predicate offences and, as a result, confiscate criminal proceeds within their respective jurisdictions. These ministries and agencies carry out their duties in each position, while also cooperating with each other by exchanging useful information, discussing issues in preventing money laundering and other ways. Also, for the purpose of promoting effective and appropriate measures against transnational organized crimes and international terrorism in a comprehensive and active manner, the "Headquarters for the Promotion of Measures against Transnational Organized Crime and International Terrorism" was established in a Cabinet Meeting in August 2004. In addition, the "Ministerial Meeting Concerning Measures against Crime" which was started by the cabinet meeting agreement in September 2003, frequently discusses anti-money laundering measures.

Figure 3-2 Anti-money Laundering Measures in Each Governmental Organization



Section 4 Countermeasures against Criminal Proceeds by the Police

From the perspectives of damaging the financial bases of criminal organizations, the police have been promoting countermeasures against criminal proceeds by, among others, cracking down on illegal acts and other fund raising activities undertaken by Boryokudan. The Act on the Prevention of Transfer of Criminal Proceeds is expected to make these countermeasures more effective with the cooperation of a wide range of business operators who may deal with criminal proceeds. The National Police Agency, playing a central part in enforcing the law, issued "the Guideline for Promotion of the Criminal Proceeds Control" with the notice of the Deputy Commissioner General of the National Police Agency in April 2007 with a view to enhancing countermeasures against criminal proceeds taken by police departments across the country

Fundamental items in carrying out measures against criminal proceeds indicated by "the Guideline for Promotion of the Criminal Proceeds Control" are composed of four principles and six promoting items as follows:

1 Principles for Countermeasures against Criminal Proceeds

- (1) Promotion of voluntary efforts by specified business operators and the promotion of public awareness
- (2) Analysis and utilization of information on criminal proceeds
- (3) Promotion of crackdown on of crimes related to criminal proceeds and deprivation of criminal proceed
- (4) Promotion of international cooperation on criminal proceeds control

2 Promoting Items of Countermeasures against Criminal Proceeds

- (1) Arrangement of the system for the promotion of countermeasures
The National Police Agency and each prefectural police should develop a system necessary for countermeasures against criminal proceeds. Each prefectural police establish a Task Force for fact-finding concerning criminal proceeds and develop the investigation system of crimes related criminal proceeds in each relevant division.
- (2) Promotion of voluntary efforts by specified business operators and public awareness
The police should provide information on the transfer of criminal proceeds, instruction and advice to specified business operators and conduct public information and educational activities to deepen general understanding about importance of criminal proceeds control.
- (3) Collection, arrangement and analysis of information on criminal proceeds
The National Police Agency should collect, arrange, analyze and disseminate information on criminal proceeds. Each prefectural police should collect the information necessary for effective countermeasures against criminal proceeds by maintaining close cooperation among relevant divisions.
- (4) Promotion of countermeasures against criminal proceeds
The National Police Agency should provide instruction to and coordinate among prefectural police departments which investigate crimes related to criminal proceeds, as well as clarify actual conditions of criminal organizations, etc. In order to cut off the source of funds for criminal organizations, etc., each prefectural police department should promote investigation where STRs are utilized, and attempt to make arrests in a proactive manner by applying the Act on the Punishment of Organized Crime, the Anti-Drug Special Provisions Law and other laws, while it should also promote information collection activities.

(5) Promotion to deprive Criminal Proceeds

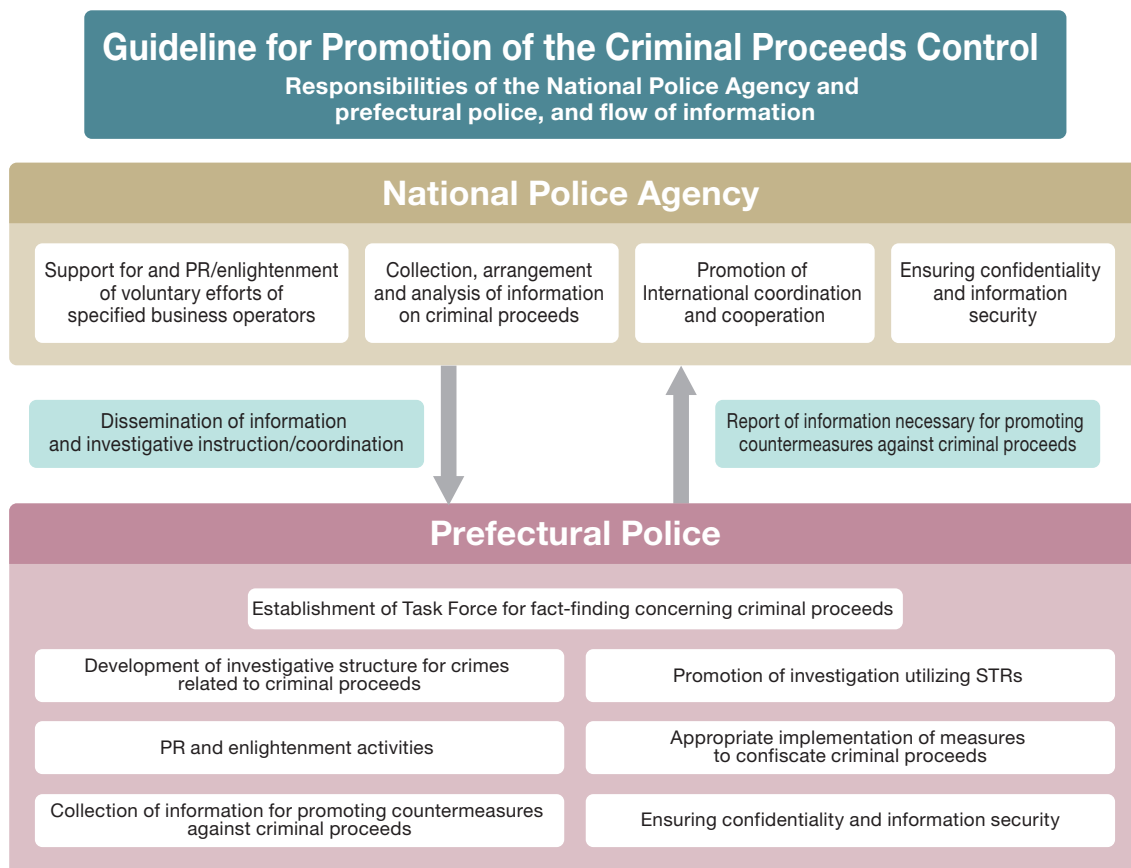
Measures to prevent the transfer of criminal proceeds shall be properly carried out, by not only arresting suspects, but also by detecting criminal proceeds and utilizing temporary restriction order before institution of prosecution. Also, close coordination with the Public Prosecutor's Office shall be further strengthened with regards to the deprivation of criminal proceeds.

(6) Promotion of international cooperation

The police should strengthen international cooperation by various ways such as exchanging information with foreign FIUs, responding to revisions of international recommendations, and supporting foreign countries in implementing international recommendations.

The police has already put into practice, actively as described in Chapter 6, the policies indicated by "the Guideline for Promotion of the Criminal Proceeds Control" through criminal investigations and other ways after the Act on Prevention of Transfer of Criminal Proceeds came into force.

Figure 3-3 Overview of the Promotion Outline of Measures against Criminal Proceeds



Section5 Cooperation with Business Operators and the Public

Paragraph1 Explanation and Provision of Information, etc. on Seminars Targeting Specified Business Operators

1 Explanation on Seminars for Postal Receiving Service Providers

In February 2010, the “Briefing on the Act for the Prevention of Transfer of Criminal Proceeds” seminar for Postal Receiving Service Providers was held by the Ministry of Economy, Trade and Industry, in Tokyo, and JAFIC officials explained the outline of the law, obligations imposed on specified business operators, etc.



Explanation at a Seminar

2 Explanation on Workshops for Shinkin banks

In July 2010, the regular meeting, “Shinkin Foreign Exchange Workshop,” for all member of Shinkin banks throughout Japan was held in Tokyo, and JAFIC officials explained the outline of the Act on Prevention of Transfer of Criminal Proceeds, obligations imposed on specified business operators and other matters.



Seminar for Currency exchanging Operators

3 Explanation on Seminars for Real Estate Agents

The NPA jointly held with the Financial Services Agency, “Suspicious Transactions Reporting” seminars for financial institutions 17 times, in total at 12 places in Tokyo or at Local Finance Bureaus around the country, etc., from September to November 2010, where cases of STRs, utilized by investigative authorities, and points which should be kept in mind when filing the report. etc., and provided them with information related to suspicious transactions reporting by answering questions made by employees of financial institutions.

4 PR on Website

The website of JAFIC has been created in the National Police Agency website, which publicizes the annual report, JAFIC's activities, and description of the Act on Prevention of Transfer of Criminal Proceeds.



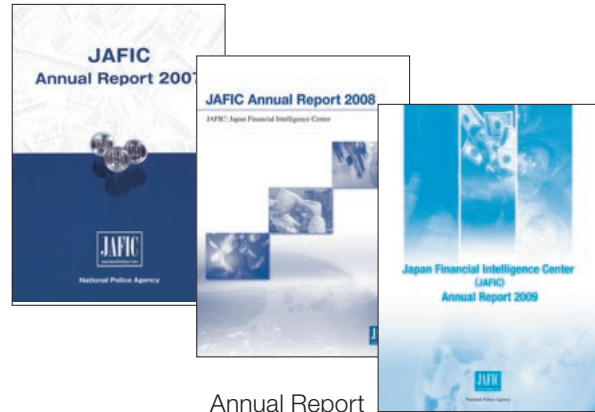
Website of JAFIC

Website of the National Police Agency

<http://www.npa.go.jp>

Website of JAFIC

<http://www.npa.go.jp/sosikihanzai/jafic/index.htm>



Annual Report



Leaflet

Paragraph 2 Provision of Information for Specified Business Operators following the U.N. Security Council Resolution

When, for example, the United Nations Security Council adopts a resolution on measures for freezing the assets related to person or organization deemed to be involved in terrorism, etc., the National Police Agency, in cooperation with relevant Ministries and Agencies, shall disseminate the content to specified business operators and request the thorough implementation of the fulfillment of customer identification obligation and suspicious transaction reporting obligation on the person or organization whose assets, etc. can be targeted for freezing. And, the targeted persons or organizations of the said measures shall be listed on the website.

Furthermore, in response to the adoption of a resolution at the United Nations Security Council No. 1874 in June 2009, the measures to freeze assets which can contribute to the plans and activities related to nuclear, ballistic missiles, or other weapons of mass destruction of North Korea, were determined to be carried out in July of the same year. In addition to disseminating these measures to

the financial institutions, the National Police Agency in coordination with related governmental agencies, requested them to pay special attention to asset transfers related to North Korea, and to work on the thorough implementation of the fulfillment of customer identification obligation and suspicious transaction reporting obligation based on the Act for the Prevention of Transfer of Criminal Proceeds. Besides, in response to the adoption of a resolution at the United Nations Security Council No. 1929 in June 2010, measures to freeze assets of those connected to nuclear activities, etc., in Iran were to be carried out in August and September of the same year respectively, so the National Police Agency made the same request to the financial agencies.

Paragraph3 Efforts of Specified Business Operators

1 Efforts of Banking Industry

The "Japanese Bankers Association" (hereinafter referred to as "JBA"), of which most of the banks operating in Japan are members, established the "Working Committee on Money Laundering Issues" within JBA in 1990 and, since then, has been taking anti-money laundering and combating the financing of terrorism (AML/CFT) measures, such as preparing and providing notices on items to keep in mind regarding the procedures of customer identification and suspicious transaction reporting, preparing and distributing seminar handbooks to its members, giving seminars for its members, and so on.

Furthermore, JBA prepares leaflets, posters or the like to be provided to customers regarding customer identification procedure, etc. In addition, JBA is promoting organizational measures on issues related to money laundering and terrorist financing inside and outside of Japan by following, at all times, the development of AML and CFT measures at FATF, exchanging and sharing of information constantly with foreign bankers associations or the like, making responses to FATF mutual evaluations of Japan, and so forth. As an example of JBA playing a leading part in the efforts of the banking industry, it incorporated provisions on compliance including money laundering prevention and confrontation with antisocial forces into the JBA "Code of Conduct," (revised in November, 2005), and prompted its members to put such into practice.

2 Efforts of Securities Industry

The securities industry has made efforts to eliminate Boryokudan. from securities transactions and to promote anti-money laundering measures.

The Japan Securities Dealers Association and each stock exchange, together with relevant authorities including the Financial Services Agency and the National Police Agency, established the "Securities Safety Liaison Committee" and "Securities Safety Liaison Committee Working-level Conference" in November 2006 to examine further measures to eliminate the Boryokudan from the industry. In July, 2007, "Elimination of Antisocial Forces from Securities Transactions and the Securities Market" was published as an interim report of the examination results of above mentioned working-level conference. Likewise, in February 2008, the "Concept of Reporting Suspicious Transactions" was summarized to ensure effective reporting, clarifying the need to further strengthen countermeasures against money laundering, such as the prompt reporting of suspicious transactions.

Moreover, relevant organization such as securities companies, the Japan Securities Dealers Association, Stock Exchange, Financial Bureau, Prefectural Police, the prefectural Center for Elimination of Boryokudan and the Bar Association established the "Securities Police Liaison Council" in each prefecture, and have improved the effectiveness of the elimination of the Boryokudan from the industry and of the prevention of money laundering, through information exchange of the field level and seminars.

Additionally, the Japan Securities Dealers Association has established the “Securities Safety Countermeasure Support Center” in March 2009. It is registered as the information management organizations for wrongful demands based on the Law Concerning Prevention of Unjust Acts by Boryokudan, by the National Public Safety Commission/ the National Police Agency. It carries out operations to receive inquiries and consultations from securities companies.

Moreover, Japan Securities Dealers Association established the “Rules regarding Severing Relationships with Anti-social Forces” in May 2010, and obligated each member to 1) introduce articles regarding Boryokudan elimination in their transaction clauses, etc, 2) screen new and existing clients, and 3) introduce articles regarding assurance by customer, “that he/she is not an antisocial force” when opening a bank account.

3 Efforts of Real Estate Industry

In December 2007, the real estate industry established the "Liaison Council for Preventing Transfer of Criminal Proceeds and Preventing Damage by Antisocial Forces in the Real Estate Industry" so that the real estate industry as a whole, can promote collective efforts to prevent the transfer of criminal proceeds and eliminate antisocial forces. It proceeds with taking measures to share the information regarding the operation of systems including the Act on Prevention of Transfer of Criminal Proceeds, through efforts such as discussing the development of a responsibility system with in relevant business operators, and preparing and distributing brochures, etc. for the purpose of enlightenment.

4 Efforts of Lawyers Associations

The Japan Federation of Bar Associations had been examining the relation between anti-money laundering measures and the duties of a lawyer, recognizing the importance of the measures, and established with a resolution of the general assembly meeting in March 2007, the "Rules on Identification of Clients and Record-Keeping" which stipulates the obligations of a lawyer; e.g., confirming the identity of a client, preserving the records for certain practices, and not accepting a request if suspected to be used for transfer of criminal proceeds. The rule was put into effect on July 1, 2007.

Every year, the Japan Federation of Bar Associations holds workshops, provides videos of the workshops and distributed materials over the Internet, and offers training videos and educational materials such as FAQs to each bar association for the purpose of raising awareness of the rules.

Moreover, an instruction manual of the rules is placed on its website for members and its journal which is sent to all members.

Section6 Measures to Ensure the Effectiveness of the “Act on Prevention of Transfer of Criminal Proceeds”

When suspicion surfaces during the investigation of Frikome fraud or other crimes by the Prefectural Police with regard to the violation of the obligation of customer identification and other matters prescribed in the Act on Prevention of Transfer of Criminal Proceeds, the National Public Safety Commission/the National Police Agency (JAFIC) makes requests to the alleged specified business operator for submission of reports or gives directions to the relevant prefectural Police on necessary inquiry.

In 2010, 7 requests to submit report were carried out to Postal Receiving Service Providers, and 10 directions requiring inquiry, were received by prefectural police. In addition, based on the result of reports of previous report collection, 12 opinions were delivered to the Ministry of Economy, Trade and

Industry which is a competent administrative agency of the Postal Receiving Service Providers in the same year, and 1 opinion to the Minister of Public Management, Home Affairs, Posts and Telecommunications, which is a competent administrative agency of the telephone receiving agency, so in total 13 opinions were delivered to take necessary measures to rectify a breach of the Act on the Prevention of Transfer of Criminal Proceeds by the business operators. In accordance with the previous opinion statement of the National Public Safety Commission / the National Police Agency, the Minister of Economy, Trade and Industry issued 3 rectification orders to postal receiving service providers.

Table 3-1 Implementation of Request to submit report etc. by the National Public Safety Commission/ the National Police Agency

	2008	2009	2010
Number of request to submit reports to the specified business operators	11	16	7
Number of direction to conduct inquiry to the prefectural police	1	2	10
Number of stating opinion to the competent administrative agencies	4	9	13

Current Conditions of the Application of Penal Provisions regarding Delivery/Provision of Deposit/Savings passbook, etc. (tentative number of cases)

The article 26 of the Act on Prevention of Transfer of Criminal Proceeds prescribe the punishment for buying and selling of deposit/saving passbooks etc. which was prescribed in the article 16-2 of the Customer Identification Act, which was abolished with the enforcement of the above mentioned Act.

Enforcement of Penal Provisions according to the Act on Prevention of Transfer of Criminal Proceeds came into force on March 1,2008. As such, the Customer Identification Act is applied to the cases of buying and selling of deposit/savings passbooks, etc. before this date (statutory punishment is the same).

There were 765 arrest cases of violation of the Act on Prevention of Transfer of Criminal Proceeds Article 26 (delivery/provision of deposit/savings passbook, etc.) (including arrests for the violation of the Customer Identification Act, Article 16-2) in 2010.

Chapter 4

Reports of Suspicious Transactions

The Act on Prevention of Transfer of Criminal Proceeds requires specified business operators to file a report to a competent administrative authority if a transaction is suspected to be related to criminal proceeds. This measure was made obligatory for the first time in the Anti-Drug Special Provisions Law and was taken over to the Act on Prevention of Transfer of Criminal Proceeds through the Act on the Punishment of Organized Crime.

Section 1 Outline of the Suspicious Transaction Report System

1 Purpose

The Suspicious Transaction Report System aims, to support investigation on money laundering and its predicate offences, to prevent criminals' illegal use of the services of specified business operators and to ensure soundness and trust of business activity.

2 Cases where Reporting is Required

Specified business operators are required to file an STR to a corresponding supervising authority, when they suspect, during the course of their businesses (types of the businesses listed in table 2-2), that assets they received are criminal proceeds or that their client commits an offence of concealment of criminal proceeds.

3 Announcement of List of Reference Cases of Suspicious Transactions (Guideline)

Specified business operators are expected to judge whether the concerned transaction is a suspicious transaction with their own knowledge and experience at their industries, taking into account the form of transaction, client attributes, conditions surrounding the transaction and other factors. It may well be the case, however, that some operators simply lack adequate understanding of money laundering and find it difficult to make an appropriate judgment. Therefore, in Japan, since the time of the Anti-Drug Special Provisions Law, "List of Reference Cases of Suspicious Transactions," has been issued for specified business operators as a guideline for reporting. It is often called the "Reporting Guideline." After full enforcement of the Act on Prevention of Transfer of Criminal Proceeds, which covers a wider variety of specified business operators than before, competent administrative authorities have announced reference cases of suspicious transactions, based on the characteristics of respective specified business operators.

These reference cases are just, as clarified in the introduction thereof, samples of suspicious transactions and are intended merely for reference. This means, it is for the specified business operator to judge whether an individual case is a suspicious transaction, taking into account the client's attributes, conditions surrounding the transaction and other specifics of the transaction. All the transactions that appear to match the listed samples do not necessarily have to be reported as suspicious, while transactions that do not fall within any of them may still be suspicious and subject to reporting.

4 Analysis of Bank Account used for Crime

JAFIC has carried out operations to statistically abstract the characteristics of bank accounts used for crime in cooperation with prefectural Police, etc. in order to make use of it in arranging and analyzing information regarding STRs, and as part of information provision to the specified business operators that is regulated in the Act on Prevention of Transfer of Criminal Proceeds, Article 3.

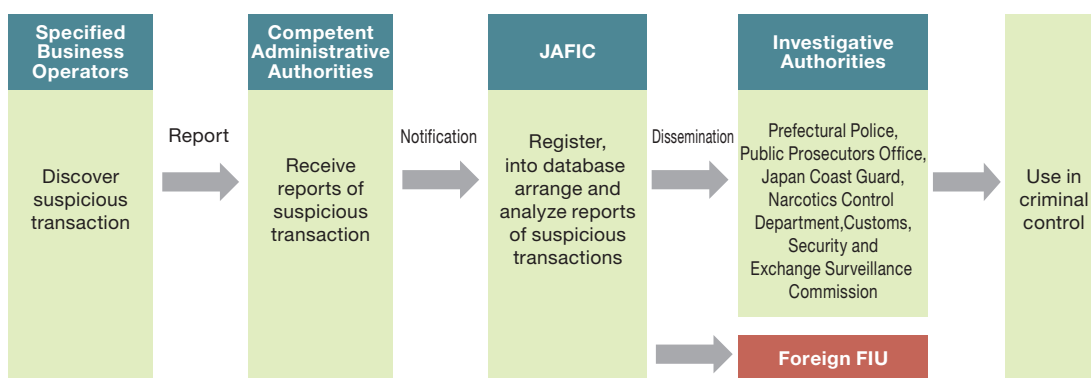
5 Flow of Suspicious Transactions Reporting

Information reported by specified business operators is collected at the National Public Safety Commission / the National Police Agency (JAFIC), via the competent administrative authorities. JAFIC arranges and analyzes STRs, and then disseminates these STRs to investigative authorities such as the Prefectural Police, the Public Prosecutors Office, etc.

The investigative authority receives and uses STRs as clues for criminal investigation, and for countermeasures against organized crime such as detection of criminal proceeds and tracing the source of illicit funds. JAFIC also provides foreign FIUs with information of overseas transactions if needed, in order to trace criminal proceeds transferred across international borders.

Furthermore at JAFIC, a detailed analysis of STRs is carried out by using the information gathered by the police for organized crime countermeasures, etc. and the results of analysis are disseminated to related Prefectural Police.

Figure 4-1 Flow of STRs from Specified Business Operators, through JAFIC to Investigative Authorities



6 Information Security Measures

Since STRs include sensitive information on individuals and business activities, JAFIC carries out due information security measures to prevent leakage, loss, damage, or other misconduct. The handling of relevant information is set forth in the regulations of the National Public Safety Commission.

In particular, since a large amount of information is stored in the database system which manages suspicious transactions, sufficient security measures are required. Various security measures taken by JAFIC are as follows.

(1) Management of Entering and Exiting

Terminals that can access information stored in the JAFIC database are located in a room with doors that are controlled by a biometric authentication system. Only a limited number of staff members are permitted to enter the room.

(2) Three steps of Authentication

In order to access the information in the JAFIC database, three levels of authentication are required. In other words, information can be reached only after authentication is carried out 3

times, in 3 different ways. During the authentication procedure, if more than one mistake occurs, access to the terminal is denied to prevent unauthorized use.

(3) Surveillance of Terminal

All processing operated at the terminals, such as file inquiries and printing, is monitored and recorded by the surveillance software. This allows for tracing survey in case of wrongful operation, and prevents improper use of information within the organization.

(4) Physical Measures of Terminals

Each terminal is firmly affixed to a desk with a security wire, to prevent theft.

(5) Strengthening of Server Management

The server that contains reporting information is located in a server room with adequate security measures, and only qualified staffs are allowed to enter.

(6) Encryption of Terminal's Hard Disk Drive Information

The hard disk drives on the terminals that are used to access the database system are all encrypted. Therefore, even if the hard disk drives are removed and taken out, the information recorded in the hard disk drive and all related programs will still be inaccessible.

(7) Encryption of Circuit

Transmission between the server and the terminals is encrypted with a special circuit.

Section2 Situation of Suspicious Transaction Reports

1 The change in the number of reported cases

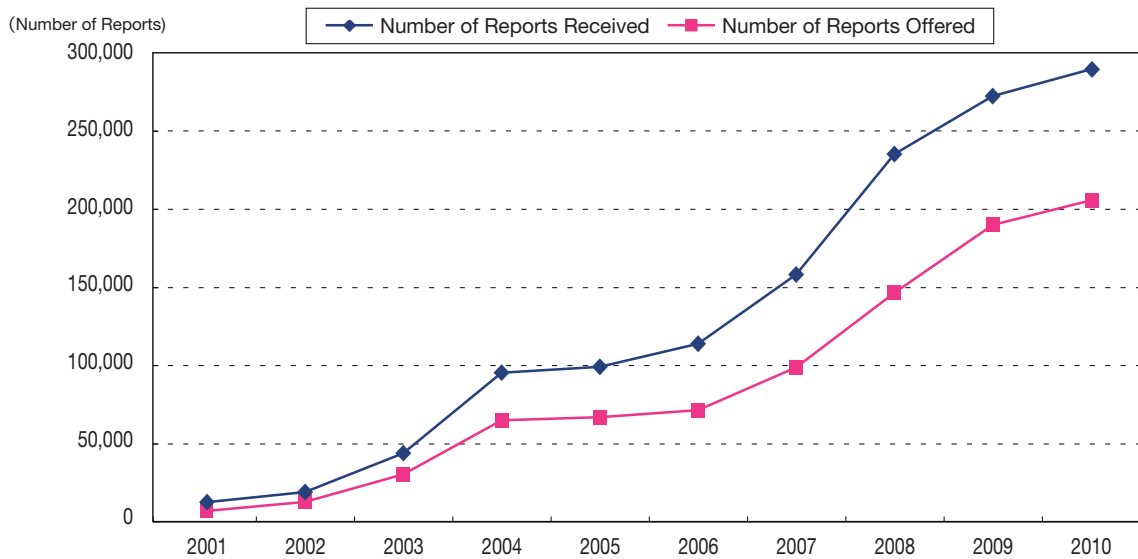
As described in Chapter 1, although the system of suspicious transaction reports was established with the enforcement of the Anti-Drug Special Provisions Law in 1992, less than 20 cases were reported each year between 1992 and 1998, largely because the subjects of reporting was limited to proceeds derived from drug-related crimes. Under these conditions, that reporting system could not be considered to be fully functional. However, since the enactment of the Act on the Punishment of Organized Crime in 1999 (enforced in February 2000), crimes which are subjects of suspicious transaction reports were expanded from drug-related crimes to serious crimes, and the number of reports exceeded 1,000 cases in 1999. Since the enforcement of the Act on the Punishment of Organized Crime in the year 2000, the number of reports has increased each year, and has rapidly increased since the enforcement of the Act on Prevention of Transfer of Criminal Proceeds. The number of reports in 2010 was 294,305, an increase of 21,980 cases (8.1%) compared to the previous year.

Table 4-1 Trend Diagram of Number of Reports of Suspicious Transactions (1992-2000)

	1992	1993	1994	1995	1996	1997	1998	1999	2000
Yearly number of Reports Received	12	17	6	4	5	9	13	1,059	7,242

Note: The reports of 1992 are those made after July, when the reporting system was established.

Figure 4-2 Trend Diagram of Number of Reports of Suspicious Transactions (2001-2010)



Yearly Number of Reports Received	12,372	18,768	43,768	95,315	98,935	113,860	158,041	235,260	272,325	294,305
Yearly Number of Reports Offered	6,752	12,417	30,090	64,675	66,812	71,241	98,629	146,330	189,749	208,650

Note 1: "Number of Reports Received" (2001-2010) is the total number of the reports received by the Financial Services Agency(JAFIO) from January 2001 to March 2007 and those received by the National Public Safety Commission/the National Police Agency (JAFIC) after April 2007.

Note 2: "Number of Reports Offered" (2001-2010) is the total number of the reports offered by JAFIO to the National Police Agency from January 2001 to March 2007 and those offered by JAFIC to investigative agencies etc. after April 2007.

The factors contributing to the increase in reporting numbers can be thought to be

- The monitoring system for antisocial forces and illegal funds transfer has been reinforced by financial institutions, with the progress of compliance awareness in society.
- The implementation of client management measures based on the Risk Base Approach has been gradually conducted.

Moreover, financial institutions, etc. have taken various measures, both tangibly and intangibly. In particular, some financial institutions whose STRs have been increased, have promoted training on countermeasures against money laundering using resources, such as handbooks for employees, to improve the ability of individual employees, while having strengthened the system to identify suspicious transactions, by increasing personnel in charge of money laundering countermeasures and the introduction of the detection systems for suspicious transactions.

2 Number of Reports by Business Types

The number of suspicious transaction reports that each category of business operators filed in 2010 is shown in table 4-2. Banks have the highest number of reports with 271,236 cases, or 92.2% of all reports, followed by Shinkin bank and Credit cooperative (11,156 cases, 3.8%), and financial instrument business operators (5,679 cases, 1.9%).

The number of reports filed by business operators who were newly required to report suspicious transactions in accordance with full enforcement of the Act on prevention of Transfer of Criminal Proceeds in March 2008. (Financial Leasing operators, Credit Card operators, Real Estate Agents, Dealers in Precious Metals and Stones, Postal Receiving Service Providers, Telephone Receiving Service Providers) totaled 1,776, an increase of 4.7% over last year.

Table 4-2 Number of Suspicious Transaction Reports by Each Business Type

Business Type		2009		2010		Increase/Decrease rate	
		Number of reports	%	Number of reports	%	Number of reports	%
Financial Institutions etc.	Bank	252,415	92.7%	271,236	92.2%	18,821	7.5%
	Shinkin Bank and Credit Cooperative	10,941	4.0%	11,156	3.8%	215	2.0%
	Financial Instruments Business	3,828	1.4%	5,679	1.9%	1,851	48.4%
	Money Lending Business	1,148	0.4%	634	0.2%	-514	-44.8%
	Norinchukin Bank etc.	281	0.1%	357	0.1%	76	27.0%
	Labour Bank	161	0.1%	243	0.1%	82	50.9%
	Insurance Company	183	0.1%	202	0.1%	19	10.4%
	Fund Transfer Company			73	0.0%	73	-
	Currency Exchanging Operator	418	0.2%	1,970	0.7%	1,552	371.3%
	Other	1,253	0.5%	979	0.3%	-274	-21.9%
Financial Leasing Operator		60	0.0%	83	0.0%	23	38.3%
Credit Card Operator		1,510	0.6%	1,617	0.5%	107	7.1%
Real Estate Agent		33	0.0%	21	0.0%	-12	-36.4%
Dealer in Precious Metals and Stones		0	0.0%	19	0.0%	19	-
Postal Receiving Service Provider		92	0.0%	36	0.0%	-56	-60.9%
Telephone Receiving Service Provider		2	0.0%	0	0.0%	-2	-100.0%
Total		272,325	100.0%	294,305	100.0%	21,980	8.1%

3 Number of notification cases classified by notification methods

According to notifications of suspicious transaction by notification method, notification by electronic application using the e-governance on-line window (e-Gov), and notification other than notification by electronic application (sending documents, etc. to the supervising administrative government agency) are described in Table 4-3.

Table 4-3 Number of Reports by Each Notification Method

Notification Methods	2008		2009		2010	
	Number of reports	%	Number of reports	%	Number of reports	%
Electronic Application	111,921	47.6%	156,291	57.4%	172,394	58.6%
Other Methods	123,339	52.4%	116,034	42.6%	121,911	41.4%
Total	235,260	100%	272,325	100%	294,305	100%

Notification rate by electronic application in 2010 was 58.6%, an increase of 1.2 points over the previous year. JAFIC has determined to make efforts to publicize notification by electric application, through workshops targeting specified business operators in order to reduce the load of the notifying person.

Section3 Use of Suspicious Transaction Reports

Paragraph1 Dissemination to Investigative Authorities

JAFIC provides investigative authorities with a part of STRs reported by specified business operators that have been judged to be conducive to the investigation of money laundering crimes or predicate offences. Investigative authorities are Prefectural Police, Public Prosecutors Office, Narcotics Control Department, Japan Coast Guard, and Customs and Securities and Exchange Surveillance Commission.

In 2010, 208,650 reports were disseminated to investigative authorities, an increase of 18,901 cases (10.0%) over the previous year (See figure 4-2). In addition, a request to send copies of records of the information regarding suspicious transaction from an investigative authority was received, so JAFIC sent the copies of the corresponding STRs.

The number of disseminated reports in 2010 accounts for 70.9 % of all the STRs and this percentage is an increase of 1.2 points over the previous year. The disseminated information is used by investigative authorities to assist investigations concerning money laundering crimes and predicate offences and for anti organized crime measures including deprivation of criminal proceeds.

Paragraph2 Outlook of How STRs are Used

The number of cases cleared by prefectural police that were initiated with information regarding STRs (hereinafter referred as "initiated cases") was 390 cases in 2010, and this is the highest number since the Act on the Punishment of Organized Crime was enforced in 2000. The total number of initiated cases since that year is 1,127 cases.

Table 4-4 shows the initiated cases categorized by crime type, with fraud making up the largest portion at 66.2%.

Table 4-4 Number of Initiated Cases of Each Crime Type

Crime \ Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Fraud	3	2	4	6	14	34	81	132	265	258
Violation of the Act on Prevention of Transfer of Criminal Proceeds							6	15	48	76
Drug Offenses	1	2						1		16
Violation of the Money Lending Control Act and the Investment Act	1		3	3	1	2	3	12	9	9
Violation of the Immigration Control and Refugee Recognition Act	2	5	1		2	12	1	3	4	5
Forgery of documents etc.	2	1		2	1		2	2	1	4
Embezzlement									2	1
Gambling		1					1			1
Violation of the Financial Instruments and Exchange Act							2	1	2	
Other	5	5	4	2		2	3	9	6	20
Total	14	16	12	13	18	50	99	175	337	390

Note 1: This is the number held by the National Police Agency

Note 2: "Violation of the Act on Prevention of Transfer of Criminal Proceeds" includes violation of the Customer Identification Act, and "Violation of the Financial Instruments and Exchange Act" includes violation of the Securities and Exchange Act

Note 3: "Drug offenses consist of each violations" of the Special Drug Act, the Stimulants Control Act, the Cannabis Control Law, the Narcotics and Psychotropics Control Act and the Opium Act.

The number of cracked cases of money laundering from the initiated cases in 2010 was 17 cases. Table 4-5 shows initiated cases by crime type, and fraud and violation of the Money Lending Business Law and the Law Concerning Receiving of Capital accounted for 70.6%.

Table 4-5 Number of Cleared Cases of Money Laundering following the Initiated Cases

Crime	Year	2007	2008	2009	2010
	Fraud		6	2	4
Violation of the Money-Lending Control Act and the Investment Act		1	6	4	4
Other		2	1	1	5
Total		9	9	9	17

Regarding the number of STRs used for investigation by prefectural police in 2010, 1,642 STRs were used for initiated cases, as shown in Table 4-6. Other than these, there were 86,418 STRs used for other investigations.

Table 4-6 Number of STRs Used

	2007	2008	2009	2010
Number of STRs used for investigation of initiated cases	907	668	1,261	1,642
Number of STRs used for investigation of cases other than above mentioned	23,079	44,199	68,680	86,418
Total	23,986	44,867	69,941	88,060

Note 1: "Number of STRs used for investigation of initiated cases" includes the number of all STRs used by the time these cases were cleared.

Note 2: In cases where investigations have been initiated by using STRs but still ongoing, these STRs are counted as "STRs used for investigation of cases other than above mentioned".

Also in the investigations not initiated with STRs, many STRs are used for criminal investigation that started from a different source, for further crimes, and for locating criminal proceeds. In addition, they are used as essential intelligence to promote anti organized crimes measures, such as for revealing sources of income or operation of Boryokudan's fund.

Moreover, JAFIC tries to obtain a realistic view of the movement of funds of the antisocial forces such as Boryokudan by comprehensive analysis of information contained in the STRs of customers, by matching them with other STRs related to the same customers that were reported in the past; information accumulated for organized crime, countermeasures as well as publicly available information.

These analyses have revealed that antisocial forces make use of Boryokudan affiliated companies, investment partnerships and other kind of corporate vehicles, utilize their funds in various ways and transfer a large amount of funds overseas.

Although it can be assumed that the resources of a large part of the funds handled by antisocial forces originate from criminal proceeds, there are many cases that their involvement in particular predicate offences is obscured because various fund activities or utilization in various ways make its source unclear.

As recent cases of arrests typically show, antisocial forces often use affiliated companies as cover, feign normal transactions that hide any connection with Boryokudan, receive cooperation from others who

have various information and specialized knowledge, and thus use their funds. This is one of the main factors which make the fund-raising activity by antisocial forces opaque.

Therefore, in order to have a clearer vision of the actual conditions of fund-raising activities, JAFIC is convinced that it is important to continue to monitor and trace the movement of funds of antisocial forces, and to enhance the control of illegal activities committed in the course of fund-raising activities through the utilization of the analysis of STRs as well as close cooperation with authorities concerned, that is, investigative authorities including Customs and Securities and Exchange Surveillance Commission, as well as foreign FIUs.

Chapter 5

Promotion of International Cooperation

Section1 Need for International Cooperation on AML/CFT Measures

Economy and financial services becoming more widely globalized today, and money transfers can be made instantly across borders. There are a number of cases in which criminal and terrorist organizations attempt to evade law enforcement authorities' investigations by transferring criminal proceeds to foreign countries, or funding terrorists through third-party nations.

Non-cooperative jurisdictions, or those taking insufficient AML/CFT measures are likely to be misused as loopholes for money laundering or terrorist financing.

Taking these situations into consideration, it is essential for relevant authorities in each jurisdiction to cooperate closely with each other and it is also important for all jurisdictions, based on the latest modi operandi of money laundering and terrorist financing, to take necessary and sufficient measures all together with a view to detect money laundering and terrorist financing by tracing accurately the transfer of criminal proceeds across borders, and to prevent the abuse of international financial system by criminal organizations for money laundering and terrorist financing.

Therefore, measures against money laundering and terrorist financing have been taken by various international institutions including FATF (Financial Action Task Force).

Since the inception of the Japan Financial Intelligence Office (JAFIO), Japan FIU has actively participated in the discussions at FATF and other international institutions.

JAFIC (Japan Financial Intelligence Center), which is a Japan's second FIU and was established in April 2007, is expected to seek to collaborate even more vigorously with other countries in promoting implementations of global and effective AML/CFT measures.

Section2 Activities of International Institutions and Japan's Participation

Paragraph1 **FATF**

1 **FATF**

FATF (Financial Action Task Force) is an intergovernmental body established following the "Economic Declaration" of the 1989 Archa Summit Communiqué to promote international cooperation on AML measures. After the September 11th US terrorist attacks of 2001, FATF has also taken the initiative in the promotion of international CFT measures.

FATF has 34 member jurisdictions (including Japan) and 2 international institutions as of December 2010.

2 Activities of FATF

(1) Main Activities of FATF

1. Formulation and review of international standards in the "FATF Recommendations" concerning AML/CFT measures
2. Monitoring the status of compliance with the FATF Recommendations in FATF member jurisdictions (Mutual Evaluations)
3. Promotion of compliance with the FATF Recommendations to non-member jurisdictions
4. Study on trends and modi operandi of money laundering and terrorist financing

(2) The FATF Recommendations

a) FATF 40 Recommendations

In 1990, FATF laid out standards in "the 40 Recommendations", to be applied by each jurisdiction in the field of law enforcement, criminal justice, and financial regulations. In 1996, FATF revised the Recommendations to make the Suspicious Transaction Report obligatory, and for other matters. With cooperation from private sectors, FATF started a re-evaluation process of the Recommendations in 2001 to improve AML/ CFT measures against the worldwide increasing sophistication and complexity of money laundering. The Recommendations was revised again and was publicized in June 2003.

The new "40 Recommendations" contained following additional elements.

- Clear definition and expansion of scope of money laundering offense
 - Undertaking customer due diligence including customer identification
 - Measures to prevent unlawful use of legal persons in relation to ML
 - Application of preventive measures to designated non-financial businesses (real estate agents, dealers in precious metals and stones) and professions (lawyers, accountants and other professionals)
 - National and international cooperation among FIUs, supervisory authorities, law enforcement authorities and other governmental organizations handling issues related to money laundering
- In 2009, as a part of preparation for the 4th round of Mutual Evaluations, an expert meeting groups were established, and since then there have been lively discussions on the further review of the "FATF 40 Recommendations."

b) FATF 9 Special Recommendations

In October 2001, a month after the September 11th US terrorist attacks, FATF held an Emergency Session to discuss countermeasures against terrorist financing. The agreement of the session was reflected in "the Special Recommendations" and was made public. Since FATF added a new recommendation on "cash couriers" to this in October 2004, it is now called "the 9 Special Recommendations on Terrorist Financing." Main components of the 9 Special Recommendations are as follows:

- Criminalization of the financing of terrorism
- Requiring suspicious transaction reporting related to terrorism
- Requiring financial institutions to include accurate and meaningful originator information (name, address and account number) on fund transfers, etc.

(3) Mutual Evaluations

FATF employs a peer review approach to encourage its members to implement the Recommendations. Member jurisdictions are evaluated by other members from various viewpoints such as law, regulation or control regime for anti-money laundering and terrorist financing, and arrest for money laundering crime. Mutual Evaluations of Japan were conducted three times in the past, in 1994, 1998, and 2008 (as for the Third Mutual Evaluation of Japan, See section 4).

3 Participation of JAFIC in FATF

As one of the founding members of FATF, Japan has been a very active contributor to its work since its establishment in 1989. Japan chaired the plenary between July 1998 and June 1999 and the former FIU of Japan, JAFIO, which had been established within the Financial Services Agency, participated in tri-annual plenary meetings and working groups which conduct analysis of money laundering typologies. Even after the functions of FIU were transferred from JAFIO to JAFIC, JAFIC has continued to actively participate in the discussion for new frameworks of AML/CTF measures. In 2010, it sent staff members to the plenary meetings held three times a year and the typology meetings.



FATF plenary meeting

Paragraph 2 APG

1 APG

APG (Asia/Pacific Group on Money Laundering) is an international cooperative body whose establishment was decided in February 1997 at the FATF 4th Asia/Pacific Money Laundering Symposium held in Thailand to promote anti-money laundering measures in non-FATF member jurisdictions in the Asia/Pacific region.

As of the end of December 2010, the APG consists of 40 jurisdictions, including Japan.

2 Activities of APG

The main activities of APG are as follows.

1. Promotion of compliance with the FATF Recommendations in the Asia/Pacific region
2. Promotion of legislation on AML/CFT in the APG member jurisdictions
3. Mutual Evaluations on APG member jurisdictions
4. Information exchange and analysis on the trend of money-laundering in the Asia/Pacific region

3 Participation of JAFIC in APG

Japan is one of the founding members of APG and has been actively contributing to the activities of APG, much as it has with FATF. For example, the first and second typologies meetings in March 1998 and March 1999 were both held in Tokyo and Japan took the role of co-chair with Australia between July 2004 and June 2006.

This approach has not been changed even after the functions of FIU were transferred to JAFIC. Since its establishment, JAFIC has continued to send staff members to the annual meetings and the typology meetings. In July 2010, the delegates participated in the annual meeting held in Singapore, and discussed the Mutual Evaluations of Brunei, Solomon Islands, Tonga, and other jurisdictions.

Furthermore, staff members were also sent from JAFIC to the typology meeting held in Bangladesh in October 2010 to participate in the study on the best practice of information analysis conducted by FIUs and on the latest modus operandi and trend of money laundering.

Paragraph 3 Egmont Group

1 Egmont Group

The Egmont Group is an international forum established mainly by FIUs of several European nations and

the United States in April 1995 with the goal of promoting cooperation on information exchange trainings and expertises between FIUs around the world engaging in AML measures. The group is named after the Egmont castle in Belgium where the first plenary session was held. Although the Egmont Group was established as an informal forum at the beginning, it has become an internationally-recognized official body at present, through the adoption of the Egmont Group Charter at the May 2007 annual plenary in Bermuda and the establishment of its permanent Secretariat in Toronto, Canada. The Egmont Group consists of FIUs of 120 jurisdictions as of the end of December 2010.

2 Various Meetings of the Egmont Group

In addition to the annual plenary meeting which representatives from all member FIUs attend, the Egmont Group has the following working groups, which are held about three times a year respectively.

1. The Legal Working Group (LWG) reviews the candidacy of potential members and handles all legal aspects and matters of principle within Egmont members.
2. The Outreach Working Group (OWG), which works to create a global network of FIUs by identifying candidates for membership and working with those countries to ensure that they meet international standards
3. The Training Working Group (TWG) identifies training needs and opportunities for FIU personnel, and conducts training seminars for Egmont members as well as for non-Egmont jurisdictions.
4. The Operational Working Group (OpWG) seeks to bring FIUs together on typologies development and long-term strategic analytical project.
5. The IT Working Group (ITWG) provides advice and research analysis support software for IT systems of the new and existing FIUs.

3 Participation of JAFIC in the Egmont Group

Upon establishing JAFIO in February 2000 within the Financial Supervisory Agency (later the Financial Services Agency) as a Japanese version of FIU, Japan applied for membership in the Egmont Group, and was granted it in May 2000 at the 8th annual plenary held in Panama.

Since then, JAFIO had actively participated in the activities of the Egmont Group. It sent staff members to working group meetings and the annual plenary meetings, and took part in the drafting of the Egmont Group Charter. JAFIO also undertook the role of sponsor FIU (in co-sponsorship with the Thailand FIU) in the application procedures for Myanmar FIU, which is currently not yet an Egmont Group member.

JAFIC, which took over the functions of Japan FIU from JAFIO in April 2007, was granted the Egmont Group membership as the new Japan FIU at the 15th Annual Plenary Meeting held in Bermuda in May 2007.

In 2010, its staff members were sent to the working group meetings in Mauritius in March, the annual meeting held in Columbia in June and the working group meetings in Moldova in October. They participated in the discussions on the principles related to information exchange between FIUs and other matters.

Moreover, JAFIC has taken over the role of sponsor FIU for the FIU of Myanmar in the application procedures into the Egmont Group, from the JAFIO.



Egmont Group Meeting (Moldova)

Section3 Information Exchange with Foreign FIUs

Paragraph1 Establishment of the Framework for Exchange of Information

It is necessary to exchange information on suspicious transactions with foreign FIUs timely in order to detect money laundering and terrorist financing by appropriately tracing criminal proceeds or terrorist financing transferred across borders.

On the other hand, Article 12 of the Act on Prevention of Transfer of Criminal Proceeds stipulates that JAFIC may disseminate information on suspicious transactions to foreign FIU on condition that there is a framework governing how the foreign FIU should use the disseminated information.

The framework as above mentioned is called MOU (Memorandum of Understanding) in the field of the international exchange for FIUs such as the Egmont Group. JAFIC has been coping with the negotiations for setting the frameworks for information exchange with numerous foreign FIUs in order to constructively exchange necessary information with them.

From its establishment of April 2007 till the end of 2009, JAFIC has set the frameworks for information exchange with the FIUs of 20 jurisdictions. Moreover, in 2010, JAFIC has newly established frameworks with 6 jurisdictions (Turkey, Mexico, Luxemburg, Chile, Finland, and India).



Setting the framework for information exchange with India FIU

Table 5-1 [26 jurisdictions which has set the Frameworks for Information Exchange between FIUs, which Japan]

Year of Agreement	Jurisdictions
2007	Hong Kong, Thailand, Malaysia, Belgium, Australia, U.S., Singapore, Canada, Indonesia, U.K., Brazil, Philippine
2008	Switzerland, Italy, Portugal, South Korea, Rumania
2009	Paraguay, France, Qatar
2010	Turkey, Mexico, Luxemburg, Chile, Finland, India

Paragraph2 Status of Information Exchange with Foreign FIUs

JAFIC exchanges suspicious transaction information with foreign FIUs in a positive and expeditious manner.

The number of the information exchange cases with foreign FIUs during 2010 was 162 cases as shown in Table 5-2. JAFIC has been strengthening the systems of analysis and as a result, requests to foreign FIUs are increasing.

In 2010 regarding strange or unreasonable money transfers to and from foreign countries, which analyses on information of suspicious transaction have revealed, JAFIC, for further analysis, made 78 requests for further analysis to relevant foreign FIUs for information, such as, the flow of funds transferred out of Japan, the source of remittance from abroad, etc.

JAFIC successfully received of requested information, as well as lots of useful information such as

foreign entities' involvement, etc., from relevant foreign FIUs.

Fig.5-2 Exchange of STRs with Foreign FIUs

	2007	2008	2009	2010
Number of requests for information from foreign FIUs to JAFIC	33	60	47	54
Number of requests for information from JAFIC to foreign FIUs	16	30	51	78
Number of cases where foreign FIUs spontaneously provided JAFIC with information	10	42	18	23
Number of cases where JAFIC spontaneously provided foreign FIUs with information	0	3	6	7
Total	59	135	122	162

In order to facilitate exchange of information, JAFIC has actively carried out various activities such as learning how foreign FIUs analyze information and how foreign FIUs analyze information utilize the funds information, etc. by foreign investigation agencies. JAFIC has also conducted meaningful discussions, etc., for the activation of future exchange of information, by visiting FIUs of jurisdictions where there is a need for close coordination especially from the viewpoint of countermeasures against money laundering and terrorism financing, as well as FIUs of other jurisdictions where there still is no framework for information exchange.

Meanwhile, in 2010 JAFIC provided foreign FIUs with information on suspicious transactions which, it finds, will contribute to the performance of their duties in 17 cases.

The following achievements were made in 2010;

- February Discussion with India FIU (New Delhi)
- March Discussion with China FIU (Beijing)
Information Exchange with Philippine FIU (Manila)
- May Information Exchange with Korea FIU (Tokyo)
Discussion with Nigeria FIU (Abuja)
Discussion with Spain FIU (Madrid)
- July Discussion with Cambodia FIU (Phnum Penh)
- September Participation in APEC seminar (Cairns)
- October Participation in South East Asia Financial Investigation Seminar held by Hong Kong FIU (Hong Kong)
Discussion with Vietnam FIU (Ha-noi)
Information Exchange with Thai FIU (Bangkok)
Discussion with Bangladesh FIU (Dacca)
- November Information Exchange with Canada FIU (Tokyo)
Individual information exchange with Thai FIU, at the East Asia Regional Organized Crime Countermeasure Conference (Tokyo)

Note: locations of the meetings are in parentheses ()



Discussion with Spain FIU



Discussion with Vietnam FIU

Section4 FATF Mutual Evaluation of Japan

Paragraph1 Implementation of the Third FATF Mutual Evaluation of Japan

The FATF Mutual Evaluation of Japan was conducted three times; and the third round, the most recent one, was conducted from late 2007 to late 2008 with JAFIC and related government agencies responding. The main process and procedure of the FATF Mutual Evaluation of assessed countries are: 1. response to the Mutual Evaluation Questionnaire (MEQ), 2. On-site visit to directly confirm the actual status by assessors, 3. discussion at the FATF Plenary meeting. Japan provided the response to the MEQ in January 2008, and underwent on-site visit in Tokyo and Osaka in March of the same year. In October 2008, at the Plenary meeting in Brazil, the third round of Mutual Evaluations of Japan was concluded. Since the results of every evaluation are to be published, the results of the evaluation of Japan are also published on the FATF website (<http://www.fatf-gafi.org/>) and the Ministry of Finance website (http://www.mof.go.jp/jouhou/kokkin/fatfhoudou_201030.htm).

Paragraph2 Outline of the Mutual Evaluation Results

For each of 49 Recommendations there are four possible levels of compliance; namely, C (Compliant), LC (Largely Compliant), PC (Partially Compliant) and NC (Non-Compliant). As the results of Japan are shown in Table 5-3, C was received for 4 recommendations, LC for 19, PC for 15, and NC for 10 (Furthermore, Japan has one recommendation that did not apply (N/A)).

As for the recommendation regarding the FIU (Recommendation 26), the need to further strengthen personnel was pointed out, while the transfer of FIU functions from the Financial Services Agency to the National Public Safety Commission / the National Police Agency was positively evaluated. (Rating: LC).

As for the recommendation regarding customer due diligence by financial institutions (Recommendation 5), assessors pointed out that the measures such as certification of beneficial owner and purpose of transaction, and ongoing customer due diligence, should be directly regulated by law or the like, and the additional customer identification methods should be introduced in case of identifying a customer without a photo ID (Rating: NC).

Paragraph3 Follow-up of the Mutual Evaluation Results

1 Follow-up Procedures

In the context of the procedures regulated by FATF, no later than 2 years after the discussion of their

MERs, assessed countries must provide an update to the FATF Secretariat describing the general statistics and new measures that have been adopted and implemented to deal with the identified deficiencies in relation to any of the FATF Recommendations that are rated PC or NC. Further updates would be provided every 2 years.

Also, Regular Follow-up procedure will apply to assessed countries where any of six "core" Recommendations (Recommendation 1, 5, 10, 13 or Special Recommendation II or IV) are rated either PC or NC. The normal first step in the process would be that 2 years after the MERs are discussed, the assessed countries would report back to the Plenary and provide information on the actions it has or is taking to address the factors / deficiencies underlying any of the FATF Recommendations that are rated PC or NC. Where the Plenary agrees that the assessed country has implemented 16 Recommendations (core Recommendations, Recommendation 3, 4, 23, 26, 35, 36, 40, Special Recommendation I, III, and V) at a level essentially equivalent to a C or LC, the country will be removed from the follow-up process. FATF members are encouraged to make necessary improvements and to seek removal from the follow-up process within three years after the adoption of the MERs.

2 Report on Improvement (1st Report) and Future Plans

Regular Follow up procedures apply to Japan under Recommendation 5 rated NC and Special Recommendation II rated PC. Since the Mutual Evaluation, Japan has made repeated consideration for the improvement of deficiencies identified in the Mutual Evaluation, at "the Related Ministry Liaison Conference regarding Implementation of FATF Recommendations," etc.

Especially, in order to assist in considering how customer due diligence in Japan should function to contribute to countermeasures against money laundering, the National Public Safety Commission / the National Police Agency, in cooperation with related ministries and agencies, established the "Council on customer due diligence measures by specified business operators for anti-money laundering" with academic experts and practitioners professionals as its committee. Results of this Council were summarized in a report in July 2010. Since then, the NPA has reflected on recommendations provided in the report, and such considerations on how customer due diligence by specific business operators should be carried out have progressed toward legal amendment.

Japan reported on the actions it has taken, or is taking, to address the deficiencies underlying Recommendations rated PC and NC in 2010 to the Plenary Meeting held in Paris in October 2010, two years after the publication of the Mutual Evaluation. The next progress report will be made in October 2011.

Table 5-3 Results of the Third FATF Mutual Evaluation of Japan

Recommendation	Outline of Recommendation	Rating	Recommendation	Outline of Recommendation	Rating
1	Money laundering offence	LC	25	Guideline & feedback	LC
2	Money laundering offence -mental element and corporate liability	LC	26	FIU	LC
3	Confiscation and provisional measures	LC	27	Investigation for money laundering and terrorist financing	LC
4	Secrecy laws consistent with the Recommendations	C	28	Power of competent authorities	C
5	Customer due diligence (financial institutions)	NC	29	Supervisory authorities	LC
6	Individuals who are or have been entrusted with prominent public function in a foreign country	NC	30	Resources, integrity and training	LC
			31	National cooperation	LC
7	Correspondent banking	NC	32	Statistics	LC
8	Misuse of new technologies & non face-to-face business	PC	33	Legal person-beneficial owners	NC
9	Rely on third parties and introducers for Customer due diligence	N/A	34	Legal arrangements (trust) - beneficial owners	NC
10	Obligation to maintain records of customer identification and transaction record	LC	35	Convention	PC
11	Obligation to pay special attention for unusual transaction	PC	36	Mutual legal assistance	PC
12	Customer due diligence by DNFBP (designated non-financial businesses and professions)	NC	37	Dual criminality	PC
13	Suspicious Transaction Report by financial institutions	LC	38	Mutual legal assistance on confiscation and freezing	LC
14	Obligation to protect reporter	LC	39	Extradition	PC
15	Obligation to maintain internal controls	NC	40	International cooperation (information exchange with foreign counterparts)	LC
16	Suspicious Transaction Report by DNFBP	PC	I	Implement United Nation instruments	PC
17	Sanction for non-compliance	LC	II	Criminalise terrorist financing	PC
18	Shell bank (bank incorporated in a jurisdiction in which it has no physical presence)	PC	III	Freeze and confiscate terrorist assets	PC
19	Other forms of reporting	C	IV	Suspicious transaction reporting related to terrorism	LC
20	Other DNFBP & secure transaction technique	C	V	International cooperation for terrorism	PC
21	Special attention for higher risk countries	NC	VI	Money/value transfer services	PC
22	Foreign branches & subsidiaries	NC	VII	Wire transfer rules	LC
23	Supervisory obligation for financial institutions	LC	VIII	Non profit organization	PC
24	Supervisory obligation for DNFBP	PC	IX	Cross border declaration & disclosure (Cash courier)	NC

Chapter 6

Money Laundering Trends

In order to take effective AML measures, it is essential to understand the scale and modus operandi of actual money laundering activities. JAFIC understands them through cleared cases related to money laundering as well as STRs. Section 1 of this Chapter describes actual conditions based on the cleared cases of money laundering. As explained in Chapter 2, money laundering defined in Japan consists of control of management of enterprises of legal persons and other entities through illicit proceeds (Article 9), concealment of criminal proceeds etc. (Article 10) and receipt of criminal proceeds etc. (Article 11) each stipulated in the Act on the Punishment of Organized Crimes, and also concealment of drug-related criminal proceeds etc. (Article 6) and receipt of drug-related criminal proceeds etc. (Article 7) each stipulated in the Anti-Drug Special Provisions Law. They include typical money laundering activities such as transferring criminal proceeds to a place to prevent from being traced and depositing criminal proceeds in a bank account under the name of another person, although all the activities to transfer criminal proceeds are not yet covered

It is better understood that the number of cleared cases of money laundering shows the AML achievement in Japan. The amounts of confiscation of criminal proceeds following the cleared cases also indicate an important element of the AML achievement. Section 2 of this chapter describes deprivation of criminal proceeds and the system of a "Temporary Restraining Order for Confiscation before Institution of Prosecution" to ensure this end.

Section 1 Cleared Cases of Money Laundering

Paragraph 1 Cleared Cases of Money Laundering under the Act on the Punishment of Organized Crimes

1 Number of Cleared Cases

There were 205 cases (21 less than the previous year) cleared of money laundering under the Act on the Punishment of Organized Crimes in 2010, including 1 case of managing enterprises through illicit proceeds (1 more than the previous year), 139 cases of concealment of criminal proceeds etc. (note) (33 less than the previous year), and 65 cases of receipt of criminal proceeds etc. (11 more than the previous year). The total number of the cleared cases after the enforcement in 2000 of the Act is 1,186.

(note) Criminal proceeds etc. mean proceeds from criminal activities, assets deriving from criminal proceeds, or assets mixed with other assets.

Table 6-1 Number of cleared cases of Money Laundering under the Act on the Punishment of Organized Crime

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Management Control through Illicit Proceeds (Article 9)	0	0	0	0	0	1 (0)	0	1 (1)	0	1 (0)
Concealment of Criminal Proceeds, etc. (Article 10)	10 (5)	19 (9)	45 (25)	50 (29)	65 (21)	91 (18)	137 (35)	134 (41)	172 (49)	139 (46)
Receipt of Criminal Proceeds, etc. (Article 11)	2 (2)	9 (7)	11 (10)	15 (11)	42 (27)	42 (35)	40 (25)	38 (21)	54 (41)	65 (44)
Total	12 (7)	28 (16)	56 (35)	65 (40)	107 (48)	134 (53)	177 (60)	173 (63)	226 (90)	205 (90)

Note 1: This is the number held by the National Police Agency.

Note 2: Each number in brackets represents the number of cases conducted by Boryokudan members etc.

In 2010, the four major categories of the predicate offences of money laundering under the Act on the Punishment of Organized Crimes were fraud such as "Furikome Fraud" (52 cases), "loan sharking offences" (46 cases) such as violations of the Investment Law and the Money Lending Business Law, theft (27 cases) and distribution of obscene objects etc. (22 cases) such as indecent DVDs and child pornography. Following the trends in recent years, fraud and "loan sharking offences" were still in the top 2 categories, and the total number of cases of these two top categories was 98, representing approximately 50% of all cases cleared of money laundering. This shows that the major source of criminal proceeds was these two crimes. (Regarding the number of cleared cases of money laundering under the Anti-Drug Special Provisions Law, please refer to Paragraph 2 of this section).

2 Modus Operandi of Money Laundering observed in Cleared Cases

(1) Examples of Concealment of Criminal Proceeds

In 2010, it was found that the suspects tried to evade investigation of law enforcement authorities by using various methods as observed in the following cases; a case where the suspect impersonating a son or other relative tricked the victim into depositing money in the bank account under another person's name telling the false fact that the money was needed for consolation (Case 1), a case where the suspect made customers remit payment to the bank account under another person's name by selling indecent DVDs and other goods at the website (Case 2), a case where stolen items were auctioned on the Internet while the suspect impersonated another person (Case 3), a case where the suspect defrauded the victim by demanding the return of correspondence course subsidies and made the victim send cash to the private mail box under a fictitious group's name (Case 4), and a case where stolen items were sold to a pawn broker while suspect impersonated another person.

Especially, with respect to in the cases such as "Furikome Fraud", "loan sharking offences" and selling of pornographic DVDs, etc., there is a trend with respect to that a suspect tries to make a victim deposit money in a bank account in another person's name, and it is still the main infrastructure for money laundering in non-face-to-face crimes like these.

[Cases 1] (Concealment of criminal proceeds etc. obtained from “Furikome Frauds” (“Ore-Ore” fraud) (note) by impersonating Victim’s son etc.)

An unemployed man and others forming a fraud group made phone calls to many victims on several occasions while posing as their relatives, such as a son, falsely claiming that he injured a woman on a date and needs consolation money etc. The suspects defrauded the victims of an approximate total of 75 million yen by making them believe the above false stories and then transfer money to a bank account under another person’s name managed by the suspects. The suspects were arrested for violation of the Act on the Punishment of Organized Crimes (charged with concealment of criminal proceeds etc.).

(March, Kochi)

Note: “Ore-Ore” fraud is one of the types of “Furikome” fraud and a case where someone pretending to be a relative calls a victim to ask for money for some concocted emergency like the need to cover the embezzled company money, leading the shook-up victim to transfer cash to the deposit account designated by the caller.

[Cases 2] (Concealment of criminal proceeds etc. related to the Sales of Indecent / Pirated DVDs through the Internet)

An unemployed man opened a website on the Internet to sell indecent DVDs and pirated ones of TV programs. Many customers purchased these illegal items and transferred a total of approximately 4.7 million yen to the Internet bank account under another person’s name, managed by the suspect. The suspect was arrested for violation of the Act on the Punishment of Organized Crimes (charged with concealment of criminal proceeds etc.).

(July, Gunma)

[Cases 3] (Concealment of Criminal Proceeds etc. related to Disposal of Stolen Items by Sale through the Internet Auction)

Gangsters of the organization affiliated with the Rokudaime Yamaguchi-gumi (Boryokudan) disposed of stolen car navigation systems by selling them on the Internet auction and using ID registered under another person’s name. And the winning bidders were instructed to transfer a total of approximately 440,000 yen to the bank account under another person’s name, managed by the suspects. The suspects were arrested for violation of the Act on the Punishment of Organized Crimes (charged with concealment of criminal proceeds etc.).

(September, Osaka)

[Cases 4] (Concealment of criminal proceeds etc related to “Furikome Fraud” under the guise of demanding the return of correspondence course subsidies)

Unemployed men impersonating representatives of a fictitious organization telephoned persons who had taken correspondence courses in order to obtain a qualification, on several occasions. The victims were falsely told that “students who were not able to obtain a qualification may be sued by the sponsoring company which are contributing to a subsidies for the course. Reimbursement of the subsidies is required to avoid such an action.” The suspects defrauded lots of victims who believed this fictitious story of approximately 71 million yen in total by making them send money by “Postpacket Mail” (note) etc to the private postal box contracted by the suspects under a fictitious name. The suspects were arrested for the violation of the Act on the Punishment of Organized Crimes (charged with concealment of criminal proceeds etc). Furthermore, a man who was expelled from the above-mentioned criminal group due to internal discord also committed the same crime, and defrauded victims of approximately 1.1 million yen in total by making them send money by “Postpacket Mail” etc. to the private postal box contracted by the suspect under a fictitious name. The suspect was also arrested for the violation of the Act on the Punishment of Organized Crimes (charged with concealment of criminal proceeds etc).

(February, Aichi, Fukui)

Note: “Postpacket Mail” is one of the new services which the Japan Post offers to deliver goods etc. It is supposed that its service is convenient for customers and its fee is lower than usual one.

(2) Examples of Receipt of Criminal Proceeds etc.

In 2010, there were a case of receiving criminal proceeds as remuneration for the instruction of the swindling (Case 5) and a case of purchasing goods, knowing that they were shoplifted.

[Cases 5] (Acceptance of criminal proceeds related to cases of fraud targeting the Employment Security Funding System)

An unemployed man instructed members of a fraudulent group the way of swindling the employment security funds from the Public Employment Security Offices, by pretending to be discharged, and accordingly lose his or her dwelling. He received 1.5 million yen, a part of the criminal proceeds which the members earned through swindles, as remuneration for his instruction by making them transfer the money to his bank account. He was arrested for violation of the Act on the Punishment of Organized Crimes (charged with receipt of criminal proceeds etc).

(June, Oita)

3 Money Laundering cases related to Members of the Boryokudan gangsters.

There were a total of 90 cases cleared (the same number as the previous year) of money laundering related to Boryokudan members and associates (note) (hereafter referred to as Boryokudan gangsters) under the Act on the Punishment of Organized Crimes in 2010, consisting of 46 cases of concealment of criminal proceeds etc. (3 less than the previous year), and 44 cases of receiving of criminal proceeds etc (3 more than the previous year). This number accounts for 43.9% of all cases cleared of money laundering.

Observation of the proportion of the cases related to Boryokudan gangsters in each type of money laundering cases shows that it was 33.1% in the receipt of criminal proceeds etc. and 67.7% in the

receipt of criminal proceeds etc.

In each type of predicate offences of money laundering related to Boryokudan gangsters, there were 24 cases of fraud such as "Furikome Fraud", 17 cases of "loan sharking offences", 15 cases of violation of the Prostitution Prevention Law, 10 cases of habitual gambling and running a gambling place for the purpose of profit, 9 cases of theft, 8 case of distribution of obscene goods, 3 cases each of acceptance for value of stolen properties, and violation of the Pharmaceutical Affairs Laws, and 1 case of violation of the Trademark law. This indicates that Boryokudan gangsters commit money laundering by a variety of predicate offences.

(Note) Associates mean persons related to the Boryokudan other than Boryokudan members and likely commit illegal acts of violence etc. against the organized power of the Boryokudan or cooperate or deal with the maintenance and operations of the Boryokudan, such as financing or providing weapons etc. for the Boryokudan or Boryokudan members.

(1) Examples of Money Laundering cases related to Fraud conducted by Boryokudan gangsters

The cases in which Boryokudan gangsters were involved accounted for 46.2% of all cases cleared of money laundering related to fraud including "Furikome Fraud" during 2010.

Boryokudan gangsters who commit fraud conceal criminals proceeds artfully by various methods such as tricking people into transferring money to bank accounts under different person's name by false demand for payments on the utilization of websites or by deceiving girlfriends with various ways such as entertaining them and the like (Case 6).

[Cases 6] (Concealment of criminal proceeds related to cases of fraudulent borrowing from a girlfriend)

A gangster of the organization affiliated with the Rokudaime Yamaguchi-Gumi (Boryokudan) tricked his girlfriend, with whom he made acquaintance over a gaming website for mobile phones, into transferring the total sum of 2 million yen to a bank account, which he was managing, under the name of another person by asking her for a loan for various reasons, which she believed. He was arrested for violation of the Act on the Punishment of Organized Crime (charged with concealment of criminal proceeds etc.)

(April, Tokyo)

(2) Examples of Money Laundering related to "Loan Sharking Offences" conducted by Boryokudan gangsters

The cases in which Boryokudan gangsters were involved accounted for 37.0% of all cases cleared of money laundering related to "loan sharking offences" during 2010.

Boryokudan gangsters concealed criminal proceeds artfully by means such as depositing illegally collected repayment in the accounts of their concubine, who was unaware of the situation (Case 7) and making borrowers transfer payment money to the bank accounts under other persons' name, which are managed by Boryokudan gangsters.

[Cases 7] (Concealment of criminal proceeds related to a case of violation of the Money Lending Business Law (unregistration) and violation of the Investment Law (high interest rate))

A gangster of the organization affiliated with the Rokudaime Yamaguchi-Gumi (Boryokudan) operated so-called loan-sharking business by lending money at illegal exorbitant high-interest rate and receiving a portion of interest by making borrowers transfer money to his bank account. He decided to conceal the total of 4 million yen, which was a part of the refunded money, so he transferred it to the bank account of his common-law wife who was not familiar with the situation and made her keep it. The suspect was arrested for violation of the Act on the Punishment of Organized Crime (charged with concealment of crime proceeds etc.).

(June, Wakayama)

(3) Examples of receipt of criminal proceeds etc. related to Boryokudan gangsters.

In cleared cases of receipt of criminal proceeds etc. by Boryokudan gangsters in 2010, there were 15 cases of violation of the Prostitution Prevention Act, 14 cases of fraud, 8 cases of habitual gambling and running a gambling place for the purpose of profit, 3 cases of theft, 2 cases of acceptance for value of stolen properties, 1 case each of "loan sharking offences" and distribution of obscene material etc. As the example cases of receipt of criminal proceeds etc., there were a case where a gangster of Boryokudan received proceeds as Mikajimeryo (protection money) from sex trade shops operating prostitution businesses within the territory of the Boryokudan (Case 8), a case where a gangster of Boryokudan received proceeds as a refund of debt from illegal pornographic DVD sales companies, and also a case where a gangster of Boryokudan purchased passbooks and cash cards obtained through fraud.

Boryokudan gangsters received criminal proceeds by collecting money under various terms such as protection money, and other matters .

[Cases 8] (Receipt of criminal proceeds related to cases such as protection money in violation of the Anti-Prostitution Law)

A senior gangster of the organization affiliated with the Rokudaime Yamaguchi-Gumi (Boryokudan) illegally obtained proceeds by forcing a manager of illegal sex service provider to transfer a part of the profit which was a total of 1.2 million yen, to his bank account, in the name of protection money, with knowledge that it was acquired through prostitution. He was arrested for violation of the Act on the Punishment of Organized Crime (charged with receipt of criminal proceeds etc.) In addition, another senior gangster of the organization affiliated with the Sumiyoshi-kai (Boryokudan) was also arrested for violation of the Act on the Punishment of Organized Crime (charged with receipt of criminal proceeds etc.) because he received a total of 1.3 million yen in cash from the same manger likewise.

(June, Ibaraki).

4 Money Laundering conducted by Foreign Visitors to Japan

In cleared cases of money laundering under the Act on the Punishment of Organized Crimes in 2010, there were 11 cases related to foreign visitors to Japan (the same number as the previous year), representing 5.4 % of all cases . In each criminal type of money laundering, there were 7 cases of concealment of criminal proceeds etc. (3 less than the previous year) and 4 case of receipt of criminal

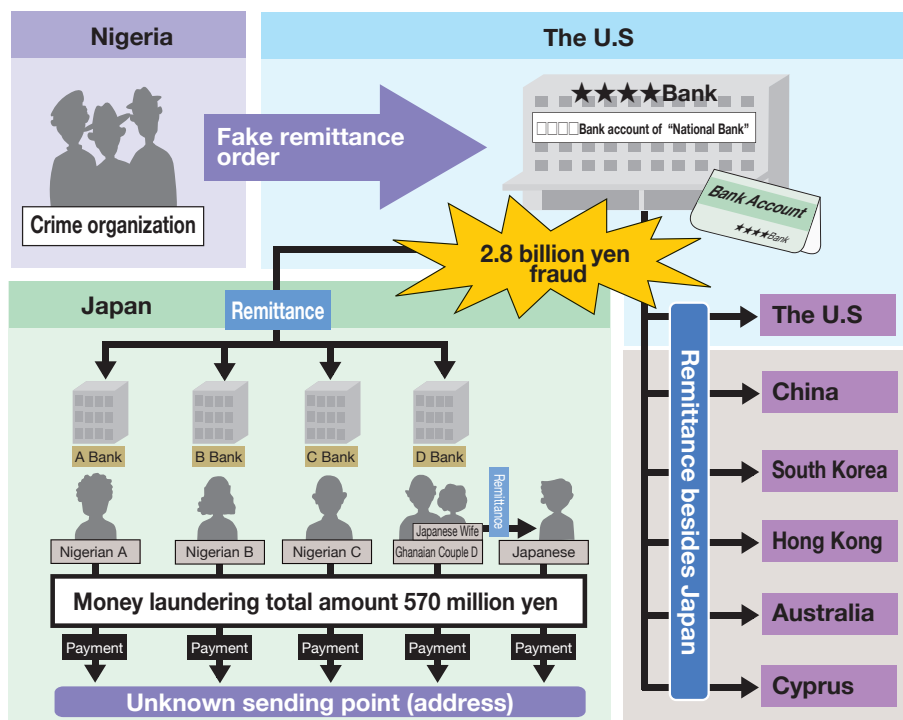
proceeds etc. (3 more than the previous year). In each type of predicate offences of money laundering committed by foreign visitors to Japan, there were 4 cases of forgery and stolen goods, 2 cases of fraud, 1 case each respectively of theft, burglary, "loan sharking offence", violation of the Trademark Act, and violation of the Pharmaceutical Affairs Law.

There was a case of concealment of criminal proceeds etc. cleared by the Metropolitan (Tokyo) Police Department, the Saitama prefectural Police, and the Miyagi Prefectural Police in September. In this case, a Nigerian residing in Japan and others concealed the criminal proceeds transferred from the U.S. to several bank accounts opened at banks in Japan by disguising these proceeds as ones acquired through legitimate trade transactions (Case 9). This criminal organization also transferred criminal proceeds to several foreign countries other than Japan, which shows this money laundering crime was committed globally and artfully.

[Cases 9] (Concealment of criminal proceeds related to a case of an international large-scale fraud committed by a Nigerian and others)

The offenders including Nigerians, Ghanaians and Japanese respectively withdrew unidentified money totally amounting to about 570 million yen from their bank accounts in Japan by giving false explanation to the bank staff as if the money originated from the legitimate trade transactions. In addition, in response to the demand for pay back from the bank which afterward noticed the explanation was false, offenders claimed that it was impossible to retrieve the money because it had already been used for paying off their debt, thus they disguised source of the funds as profits from their rightful business. The fact said that the money withdrawn was a part of the money equivalent of 2.8 billion yen remitted from a bank account of what it is said as "National Bank" established at the U.S. bank to several bank accounts worldwide (including the above offender's bank accounts in Japan) based on a fake remittance order made by a member of overseas-based criminal organization in Nigeria under the name of president of that "National Bank".

(September, Tokyo, Saitama, and Miyagi)



Paragraph 2 Cleared Cases of Money Laundering under the Anti-Drug Special Provisions Law

In 2010, with respect to cleared cases of money laundering under the Anti-Drug Special Provisions Law, there were 8 cases related to concealment of drug-related criminal proceeds etc. (Note) (3 more than the previous year) and 1 case of receipt of drug-related criminal proceeds etc. (4 less than the previous year). The total number of the cleared cases since 2000 is 73.

(Note) Drug-related criminal proceeds etc. mean proceeds from drug-related criminal activities, assets deriving from drug-related criminal proceeds, or assets mixed with other assets.

Table 6-2 Numbers of cleared cases of money laundering under the Anti-Drug Special Provisions Law

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Concealment of drug-related criminal proceeds (Article 6 of the Law)	3 (0)	0 (0)	8 (2)	5 (3)	3 (2)	5 (3)	5 (4)	10 (4)	5 (1)	8 (4)
Receipt of drug-related criminal proceeds (Article 7 of the Law)	0 (0)	0 (0)	2 (2)	0 (0)	2 (2)	5 (2)	2 (1)	2 (1)	5 (3)	1 (1)
Total	3 (0)	0 (0)	10 (4)	5 (3)	5 (4)	10 (5)	7 (5)	12 (5)	10 (4)	9 (5)

Note 1: This is the number held by the National Police Agency

Note 2: Each number in brackets represents the number of cases conducted by Boryokudan gangsters, etc. (known to the National Police Agency)

[Cases 10] Concealment of drug-related criminal proceeds etc. related to trafficking of stimulant drugs by Boryokudan .

Some gangsters of the organization affiliated with then the Rokudaime Goda Ikka (Boryokudan) were arrested for violation of the Stimulants Control Law (for transfer for profit) as they were trafficking stimulant drugs illegally over the wide area of the Chugoku district by using parcel delivery services. After a subsequent criminal investigation, a ringleader of stimulant drugs providers who is an executive gangster of the organization affiliated with the Sumiyoshi-Kai (Boryokudan) was not only arrested for violation of the Stimulants Control Law (for transfer for profit) but also for violation of Anti-Drug Special Provisions Law (for Concealment of drug-related criminal proceeds) as he forced an accomplice-trafficker to transfer 50 million yen to the bank account under another person's name, managed by the suspect himself in payment for the stimulant drugs.

(January, Okayama, Hiroshima and Yamaguchi)

Section2 Deprivation of Criminal Proceeds

In order to prevent criminal proceeds from being used to maintain and expand the powers of criminal organizations and being used to invest in future criminal activities, it is important to deprive them. Confiscation and collection of equivalent value of criminal proceeds are conducted based on the court

order. To ensure that criminal proceeds are not concealed or spent before the order is given, the police uses the system of "Temporary Restraining Order for Confiscation before Institution of Prosecution" stipulated in the Act on the Punishment of Organized Crime and the Anti-Drug Special Provisions Law in order to confiscate criminal proceeds effectively.

Paragraph 1 Confiscation and Collection of Equivalent Value under the Act on the Punishment of Organized Crime

1 Application of Provisions of Confiscation and Collection of Equivalent Value

The details of application of Provisions of Confiscation and Collection of Equivalent Value under the Act on the Punishment of Organized Crime in general court procedures (first trials) are shown in the following Table 6-3.

Table 6-3 Statistics of the application of Provisions of Confiscation and Collection of Equivalent Value under the Act on the Punishment of Organized Crime in general first trials

Year	Confiscation		Collection		Total	
	Persons	Amount	Persons	Amount	Persons	Amount
2005	18	69,958	54	585,698	72	655,657
2006	27	150,406	75	1,869,842	102	2,020,248
2007	29	104,020	67	603,680	96	707,700
2008	40	335,721	79	560,791	119	896,512
2009	98	105,774	129	4,980,485	227	5,086,259

Note 1: Data is based on the White Paper on Crime.

Note 2: Units are yen in thousands (amounts less than one-thousand yen are rounded down).

Note 3: When Confiscations and Collections of Equivalent Value were ordered in duplicate for accomplices, the amount was calculated excluding the duplicated amount.

2 Temporary Restraining Order for Confiscation of Criminal Proceeds before Institution of Prosecution

"Temporary Restraining Orders for Confiscation of Criminal Proceeds before Institution of Prosecution" were issued 70 times (16 more than the previous year) in 2010, under the Article 23 of the Act on the Punishment of Organized Crime. The total number of the orders since the enforcement of the law is 229.

In each type of predicted offences, there were 15 cases of habitual gambling and running a gambling place for the purpose of profit, 12 cases of loan-sharking offenses, 10 cases of obscene-goods distribution, 9 cases of violation of the Anti-Prostitution Law, 6 cases of fraud, 5 cases of violation of the Disposal of Waste Matter Act, 3 cases each respectively of theft, violation of the Trademark Law and violation of the Copyright Act, and one case each respectively of burglary, document forgery, violation of the Workers Dispatching Law and violation of the Pharmaceutical Affairs Law. From 2007 onward, the number of the Orders has increased substantially year by year. One of the reasons for this trend is that "Confiscation and Collection of Equivalent Value of the Crime Victim Property" related to crimes such as fraud, loan sharking offences, theft, and acceptance of stolen properties, which had not been subjects to be confiscated or collected, are now available due to the enforcement of the amended Act on the Punishment of Organized Crime of December 1, 2006, and that the provision of the Article 13, Paragraph 3 of the Act (confiscation of crime victim property) has been applied. The system of a "Temporary Restraining Orders for Confiscation before Institution of Prosecution" under the Act on the

Punishment of Organized Crime which enables judicial police officers to deprive criminal proceeds is an important measure. It is expected that the police, in good coordination with the public prosecutor's office, will use the system effectively and prevent criminal organizations from using criminal proceeds etc.

Moreover, the police should actively make use of "Temporary Restraining Orders for Confiscation of Crime Victim Property before Institution of Prosecution" to ensure the enforcement of confiscation orders for the purpose of the recovery of crime victim property by the public prosecutor under the "Act on the Provision of Compensation for Crime Victim Property, etc."

As cases of "Temporary Restraining Orders for Confiscation before Institution of Prosecution" which has been already issued, there were cases such as issuing the Orders against cash obtained through gambling and a luxury car purchased with a part of that cash (Case 11), as well as issuing the Orders against stolen cash which was hidden in bamboo groves away from the suspect's house (Case 12). And also there was a case of issuing the Orders against land/ building unfairly taken in for the purpose of using it as a Boryokudan's office (Case 13).

[Cases 11] (Temporary Restraining Order for Confiscations of Criminal Proceeds before Institution of Prosecution related to habitual gambling cases using "Pachinko-slot" machines)

A manager of a game parlor acquired huge amount of criminal proceeds by running a gambling place habitually with using some dozens of "Pachinko-slot" machines installed in the parlor. He spent a part of criminal proceeds to purchase a luxury car, and kept the total of approximately 6.5 million yen in cash, so a "Temporary Restraining Order for Confiscation of Criminal Proceeds before Institution of Prosecution" was issued to the suspect for the assets.

(February, Miyazaki)

[Cases 12] (Temporary Restraining Order for Confiscations of Criminal Proceeds before Institution of Prosecution related to a case of theft)

An unemployed man stole cash from someone's house and kept the total of approximately 25 million yen, which was a part of the stolen money, by placing it in bamboo groves approximately 9 kilometers away from the suspect's house, so a "Temporary Restraining Order for Confiscation of Criminal Proceeds before Institution of Prosecution" was issued to the suspect for the cash.

(June, Chiba)

[Cases 13] (Temporary Restraining Order for Confiscation of Criminal Proceeds before Institution of Prosecution related to a real-estate fraud case)

A senior gangster of the organization affiliated with the Rokudaime Yamaguchi-gumi (Boryokudan) and others defrauded a man of the premises (a land of 605.95 square meters and a building) by giving a false statement that it would be an effective measure for tax purpose and actually used it as a gang office, so a "Temporary Restraining Order for Confiscation of Criminal Proceeds before Institution of Prosecution" was issued to the suspects for the premises.

(November, Fukushima)

Table 6-4 Amounts and numbers of Temporary Restraining Orders for Confiscation of Criminal Proceeds. before Institution of Prosecution issued under the Act on the Punishment of Organized Crime

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1 (1)	5 (4)	7 (3)	7 (5)	8 (0)	9 (3)	21 (7)	44 (21)	54 (23)	70 (36)

Note 1: This is the number held by the National Police Agency

Note 2: Each number in brackets represents the number of cases related to Boryokudan gangsters etc.

Year	Total amount of credit	Other
2001	¥768,500	
2002	¥4,304,999	
2003	¥12,809,068	Land 6,600m ²
2004	¥12,079,511	
2005	¥564,953,561	
2006	¥52,680,512	
2007	¥268,801,546	
2008	¥314,239,728	
2009	¥270,188,760	Foreign currencies 750US dollars
2010	¥160,597,150	Land 605.95m ² Building 1 Car 2 Necklace 1

Paragraph 2 Confiscation and Collection of Equivalent Value under the Anti-Drug Special Provisions Law

1 Application of Provisions of Confiscation and Collection of Equivalent Value

The details of application of Provisions of Confiscation and Collection of Equivalent Value under the Anti-Drug Special Provisions Law in general court procedures (first trials) are shown in the following Table 6-5.

Table 6-5 Statistics of the application of Provisions of Confiscation and Collection of Equivalent Value under the Anti-Drug Special Provisions Law in general first trials

Year	Confiscation		Collection		Total	
	Persons	Amount	Persons	Amount	Persons	Amount
2005	39	53,674	316	1,324,360	355	1,378,034
2006	62	79,264	373	1,740,761	435	1,820,025
2007	53	153,830	285	1,128,689	338	1,282,519
2008	61	93,695	362	1,391,545	423	1,485,240
2009	68	34,087	350	1,428,732	418	1,462,820

Note 1: Data is based on the White Paper on Crime.

Note 2: Units are yen in thousands (amounts less than one-thousand yen are rounded down).

Note 3: When Confiscations and Collections of Equivalent Value were ordered in duplicate for accomplices, the amount was calculated excluding the duplicated amount.

Note 4: Foreign currencies were exchanged into Japanese yen at the exchange rate of the date of the ruling.

2 Temporary Restraining Order for Confiscation of Drug-related Criminal Proceeds before Institution of Prosecution

In 2010, Temporary Restraining Orders for Confiscation of Drug-related Criminal Proceeds etc. before Institution of Prosecution were issued 13 times (5 more than the previous year) under the Anti-Drug Special Provisions Law. The total number of the orders since 2000 is 69.

Table 6-6 Amounts and numbers of Temporary Restraining Orders for Confiscation of Drug-related Criminal Proceeds, before Institution of Prosecution issued under the Anti-Drug Special Provisions Law

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
4 (1)	7 (3)	8 (2)	5 (2)	8 (5)	3 (2)	4 (3)	7 (5)	8 (5)	13 (7)

Note 1: This is the number held by the National Police Agency

Note 2: Each number in brackets represents the number of cases related to Boryokudan gangsters etc.

Year	Total amount of credit	Other
2001	¥7,856,074	
2002	¥305,619,061	
2003	¥47,839,109	
2004	¥67,440,983	
2005	¥92,619,024	
2006	¥10,432,915	
2007	¥45,032,829	
2008	¥23,344,267	
2009	¥29,215,674	
2010	¥33,591,421	Traveler's Check 11,500 US dollar Necklace 1 Wristwatch 2 Car 1

[Cases 14] (Temporary Restraining Order for Confiscation of Drug-related Criminal Proceeds etc. before Institution of Prosecution related to a case of sale of stimulant drugs by an Iranian drug- trafficking organization)

An Iranian, a ringleader of the Iranian drug-trafficking organization which was based in several parts of Tokyo and sold stimulant drugs as well as other drugs systematically, was arrested for violations of the Stimulants Control Act and the Cannabis Control Act (both charged with transfer for profit). It was discovered that he held a total of approximately 2.3 million yen in cash which was acquired through the sales of stimulant drugs, so a Temporary Restraining Order for Confiscation of Drug-related Criminal Proceeds etc. before Institution of Prosecution was issued for the abovementioned cash.

(March, Tokyo)

