

Japan Financial Intelligence Center (JAFIC)

Annual Report

2012

JAFIC: Japan Financial Intelligence Center



National Police Agency

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Introduction

The term “money laundering” refers to the act of hiding the source or beneficial owner of criminal proceeds. Where money laundering is not dealt with, criminal proceeds continue to be utilized in criminal activities and to maintain and enhance crime syndicates. These syndicates are then free to use these funds to interfere with legitimate economic activities. Therefore it is critical to prevent transfers of criminal proceeds.

“Specified business operators” are responsible for verifying and preserving customer identification records in order to secure traceability of criminal proceeds. They are also required to report transactions they suspect may relate to money laundering to the competent administrative authorities. Suspicious transaction reports (STRs) are collected, arranged, and analyzed by the National Public Safety Commission, from which they are disseminated to investigative authorities for use in criminal investigations. In accordance with changes of the laws, the suspicious transaction reporting system is now operated in a manner consistent with the Act on Prevention of Transfer of Criminal Proceeds.

Five years have passed since the full enforcement of the Act on Prevention of Transfer of Criminal Proceeds, and twenty years since the establishment of Japan’s suspicious transaction reporting system. Progress over this period has been significant in terms of: development of the system, number of suspicious transactions reported, number of arrests made based on STRs, and other factors. In addition, the amended Act on Prevention of Transfer of Criminal Proceeds will be enforced in April 2013, further boosting Japan’s anti-money laundering initiatives.

Meanwhile, money laundering methods and trends in crime continue to change. And terrorist financing, which refers to the provision of funds to support or facilitate terrorists and their activities, has also been recognized as a serious threat to the global financing systems. To adapt to these situations, the Financial Action Task Force, an international organization responsible for money laundering and terrorist financing strategies, amended its Recommendations on measures to be taken by the each country in February 2012. Japan’s AML/CFT regimes must continue to develop in a similar manner: that is by keeping abreast of related trends in Japan and other countries, taking into consideration the opinions of various sources on the subject, and utilizing this information for further development.

At the same time, it has remained true since the establishment of the suspicious transaction reporting system that the understanding and cooperation of the public, such as specified business operators and their customers, as well as crackdowns by investigative authorities, are crucial factors in efficient implementation of countermeasures against money laundering and terrorist financing.

This Report provides information on countermeasures against money laundering and terrorist financing on an annual basis, facilitating understanding and cooperation amongst the public. By extension, it is our hope that this report helps to achieve the objectives of the Act on Prevention of Transfer of Criminal Proceeds of ensuring safety and peace of national life and contributing to the sound development of economic activities by preventing the transfer of criminal proceeds and other 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).

February, 2013

河合 信之

Nobuyuki Kawai

Director for Prevention of Money Laundering

Chapter 1

Overview of History of Anti-Money Laundering and Countering the Financing of Terrorism(AML/CFT) Measures

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

The international society continues to enhance and develop systems to prevent and detect money laundering and terrorist financing, as well as cooperates with each other to deal with these issues.

Japan has also worked to reinforce AML/CFT measures in line with international initiatives. Various systems and activities described in this report have delivered positive results through such international cooperation on money laundering and terrorist financing initiatives as well as through domestic efforts.

Section 1 AML/CFT Measures in International Society

1 Anti-Money Laundering Measures as Countermeasures against Narcotic Drugs

Through the 1980s, the global spread of narcotics abuse was taken as a crisis in the international society, prompting a variety of initiatives from different angles to address the issue. One of the main causes was the existence of illegal transactions by 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, in order to deepen international cooperation on money laundering initiatives related to drug crimes, the major developed countries decided to establish the FATF. In April 1990, urged by the need for standardizing measures in different countries, the FATF devised “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 Organized Crime

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 also 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, in each country, FIUs (Financial Intelligence Units), which are dedicated to collecting, arranging, and analyzing money laundering information, and to disseminating the information to investigative authorities, etc. as a measure to utilize the suspicious transaction reports for criminal investigation effectively. 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 terrorist financing".

3 Countermeasures Against Terrorist Financing

Anti-terrorism measures are similar to anti-money laundering measures in several ways: preventive measures are particularly important; it is critical to intercept terrorist organization financing and to clarify fund supply routes; and the circumstances require international cooperation.

Based on the concepts noted above, the International Convention for the Suppression of the Financing of Terrorism, adopted in December 1999, requires signatory countries to have mechanisms in place to criminalize terrorist financing and collection of funds for terrorism; to confiscate terrorist finances; to verify customer identity by financial institutions, and to report on suspicious transactions.

Later, in response to the terrorist attacks on the U.S. in September 2001, the FATF held an emergency session in October of the same year, when it issued "The 8 Special Recommendations," at which time it included anti-terrorist financing measures as part of its mission, as well as criminalizing terrorist financing and freezing terrorist assets as an international standard for fighting terrorist financing. 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".

4 Countermeasures Against Changes in 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 in June 2003 “The 40 Recommendations,” extending the scope of operators required to implement the Recommendations to non-financial businesses and professions. Furthermore, in February 2012, the revised International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation (The FATF Recommendations) were adopted and fully integrated the counter-terrorist financing measures (9 Special Recommendations) with the anti-money laundering measures (40 Recommendations) and include counter-financing of proliferation measures. The Recommendation also tightened the requirements on politically exposed persons in order to take measures to combat corruption.

To assess compliance by member countries/jurisdictions, mutual evaluations have been undertaken through the peer review process. Evaluations are conducted on criteria such as money laundering and terrorist financing legislation; FIU systems; arrest records on money laundering cases and/or terrorist financing cases.

In addition, the FATF studies 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 has provided multiple advice on countermeasures through publishing reports and other methods.

Section 2 AML/CFT Measures in Japan

1 Enforcement etc. 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, in June 1990, the then Director-General of the Banking Bureau at the Ministry of Finance issued a notice which demanded that financial institutions verify customers identity. Next, “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 July 1992 as one of the domestic laws implementing “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 40 Recommendations.”

2 Enforcement of “the Act on Punishment of Organized Crimes”

The first 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 extremely difficult for

financial institutions etc. to determine if each transaction was actually related to drug crimes in reporting suspicious transactions, resulting in fewer suspicious transaction reports. Another reason for this ineffectiveness was that there was no system in place to collect reported information or to disseminate it to investigative authorities.

To address these problems, “the Act on Punishment of Organized Crimes and Control of Crime Proceeds” (hereinafter referred to as “the Act on Punishment of Organized Crimes”) was enforced in February 2000 in Japan based on “The 40 Recommendations” as revised in June 1996. This law represented progress in regulations against criminal proceeds on several points. Firstly, the scope of predicate offences for money laundering was extended from drug-related crimes to those and other serious crimes. Secondly, the scope of crimes subject to the suspicious transaction reports regime was also extended to include other serious crimes as well as illegal drug crimes. Thirdly, the law designated the Financial Supervisory Agency (later reorganized to the Financial Services Agency) as the FIU of Japan, and also established the Japan Financial Intelligence Office (JAFIO) within the agency.

3 Enforcement of “the Act on Punishment of Financing of Offences of Public Intimidation” and “the Customer Identification Act”, and Revision of “the Act on Punishment of Organized Crimes”

As a major development after the terrorist attacks in US, “the Act on the Punishment of Financing of Offences of Public Intimidation” was enforced in July 2002 as a domestic law to implement “the International Convention for the Suppression of the Financing of Terrorism” (not yet ratified at that time), criminalizing terrorist financing and collecting of funds for terrorism. At the same time as the adoption of “the Act on Punishment of Financing Offences of Public Intimidation”, “the Act on Punishment of Organized Crimes” was partially revised, so that the terrorist financing/fund collection offence was included in predicate offences. Moreover, terrorist funds were stipulated as criminal proceeds, which means that assets suspected of terrorist funds are now subject to reporting as suspicious transactions. Also, to implement the customer identification process/keeping transaction records required under the said Convention and the 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 Billing Fraud, the Law on Customer Identification by Financial Institutions, etc. was revised in December 2004 to provide sanctions to transfer (both receiving/assignment) of passbooks etc. soliciting, or the like, and the title was changed to “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”)

4 Enforcement and Amendment 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 non-financial businesses and professions, “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 consideration of the implementation of the re-revised Recommendations in December 2004. In November 2005, the abovementioned Headquarters 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 Police Agency. In addition, the competent administrative authorities would provide guidance and supervision regarding suspicious transactions to relevant sectors.

The National Police Agency drafted, in cooperation with relevant ministries and agencies, a bill by using for reference the Customer Identification Act and a portion of the Act on Punishment of Organized Crimes, 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 and other measures was enforced in March, 2008.

Since then, the National Police Agency, along with the cooperation of concerned government ministries and agencies, has amended legislation as appropriate on countermeasures against money laundering and terrorist financing, including the Act on Prevention of Transfer of Criminal Proceeds and its sub-regulations as well as various other ordinances in order to appropriately respond to changes in social conditions and to address the deficiencies identified in the FATF Mutual Evaluation of Japan.

In April 2011, upon consideration of discussions on recommendations made under the 3rd FATF Mutual Evaluation of Japan, and in light of damages caused by billing fraud in Japan, the following amendments were made to the Act on Prevention of Transfer of Criminal Proceeds: additional points to verify on transactions of specified business operators; addition of call forwarding service providers to the list of specified business operators; addition of measures for accurate verification at the time of transactions; and strengthening punishments on illicit transfer of passbooks. In addition, necessary amendments were made to sub-regulations in 2012.

Figure 1-1 History of AML/CFT 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 (Establishment of the 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 1996	FATF revised the 40 Recommendations - Extending the scope of predicate offences to serious crimes became compulsory.
May 1998	Birmingham Summit (Agreement on establishment of FIU)
September 2001	Terrorist attacks in the US
October 2001	FATF issued its 8 Special Recommendations - Criminalization of terrorist financing, reporting of suspicious transactions related to terrorism.
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.)
October 2004	FATF revised its 8 Special Recommendations to make 9 Special Recommendations - Measures were added to prevent physical movement of funds across borders
October 2008	FATF announced the results of the Third Mutual Evaluation of Japan - Nine categories, including CDD, were given the "NC" rating
February 2012	FATF revised its 40 Recommendations and 9 Special Recommendations - FATF integrated both into New 40 Recommendations
	June 1990 The Ministry of Finance issued an order to financial organizations (requiring financial institutions to verify customer identity)
	July 1992 Enforcement of the Anti-Drug Special Provisions Law (Criminalization of money laundering related to drug crimes, establishment of suspicious transaction reporting system)
	February 2000 Enforcement of the Act on Punishment of Organized Crimes (Expansion of scope of predicate offences to include other serious crimes, establishment of Japanese FIU at the Financial Supervisory Agency)
	July 2002 Enforcement of the Act on Punishment of Financing of Offences of Public Intimidation and the revised Act on Punishment of Organized Crime (addition of terrorist funding and collection etc. to list of predicate offences)
	January 2003 Enforcement of the Customer Identification Act (Obligation of customer identification 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 Partial enforcement of the Act on Prevention of Transfer of Criminal Proceeds Transfer of the function of FIU (from the Financial Services Agency to the National Public Safety Commission / the National Police Agency)
	March 2008 Full enforcement of the Act on Prevention of Transfer of Criminal Proceeds (Enforcement of the customer identification obligation etc. to DNFBPs)
	April 2010 Enforcement of partial revision of the Act on Prevention of Transfer of Criminal Proceeds in tandem with the enactment of the Act on Settlement of Funds (addition of funds transfer companies to the list of specified business operators etc.)
	April 2011 Enactment of the amended Act on Prevention of Transfer of Criminal Proceeds
	May 2011 Partial enforcement of the amended Act on Prevention of Transfer of Criminal Proceeds (increase in penalties for illicit transfer of savings passbooks)
	April 2013 Full enforcement of the Act on Prevention of Transfer of Criminal Proceeds (Addition of matters to be verified during transactions, addition of measures to ensure accuracy of verifications during transactions, addition of more specified business operators)

Section 3 Establishment of the Japan Financial Intelligence Center (JAFIC)

Paragraph 1 Background of Establishment

The scope of business operators required to take 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, and other business operators.

Therefore, based on factors including the following, it was determined that the National Police Agency should have the functions of an FIU:

- The business operators subject to these obligations, and the type of business of these operators, no longer falls under the jurisdiction of the Financial Services Agency alone.
- The National Police Agency plays a major role in countering the *boryokudan* and other organized crime syndicates and in countermeasures against terrorism, and is better equipped to accurately analyze information.

The Act on Prevention of Transfer of Criminal Proceeds clarified that the National Public Safety Commission (NPSC), which exercises administrative supervision over the National Police Agency and is aided by it, is responsible for prompt and appropriate collection, arrangement, analysis, and dissemination of suspicious transaction reports filed by specified business operators. The Act also granted the NPSC a function related to the handling of STRs including its 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 Japan's new FIU to perform these functions on April 1, 2007, in tandem with the partial enforcement of the Act.

Paragraph 2 Mission and Structure

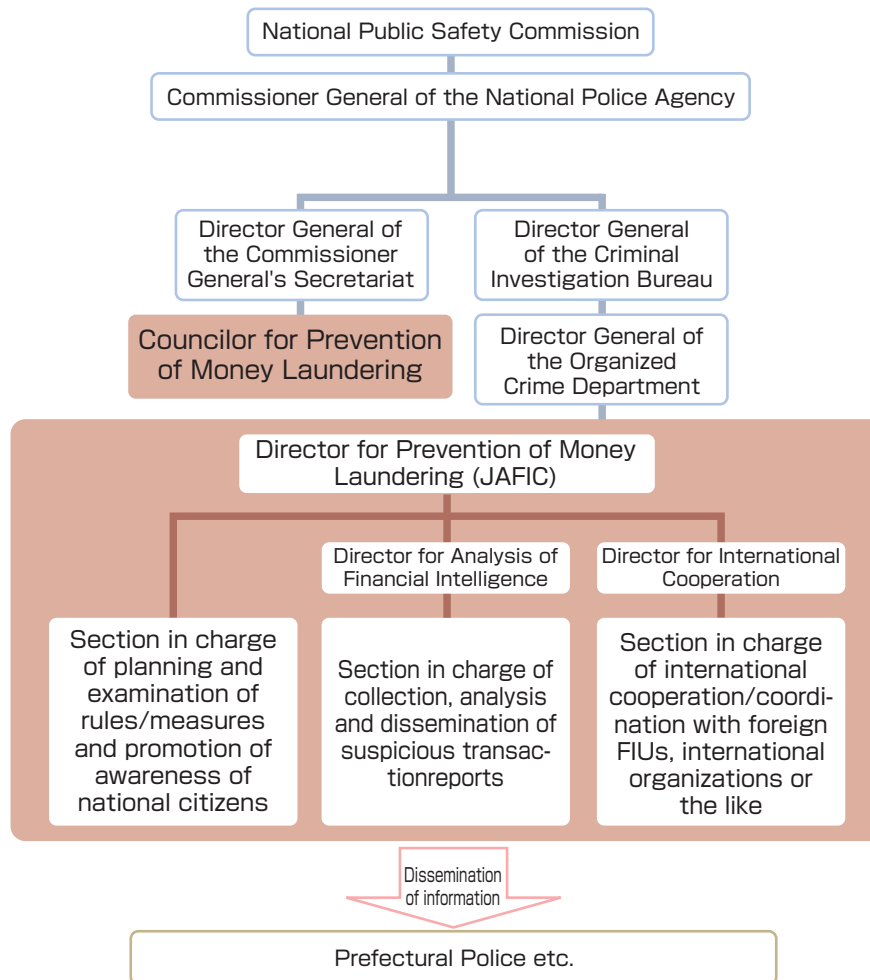
JAFIC is in charge of the following tasks provided in the Act on Prevention of Transfer of Criminal Proceeds (responsibility of the NPSC)

- 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. . It also participates in discussion of international standards related to AML measures.

The structure of JAFIC is illustrated in Fig. 1-2. It is currently composed of about 100 employees under the Director for Prevention of Money Laundering.

Figure 1-2 Structure of JAFIC

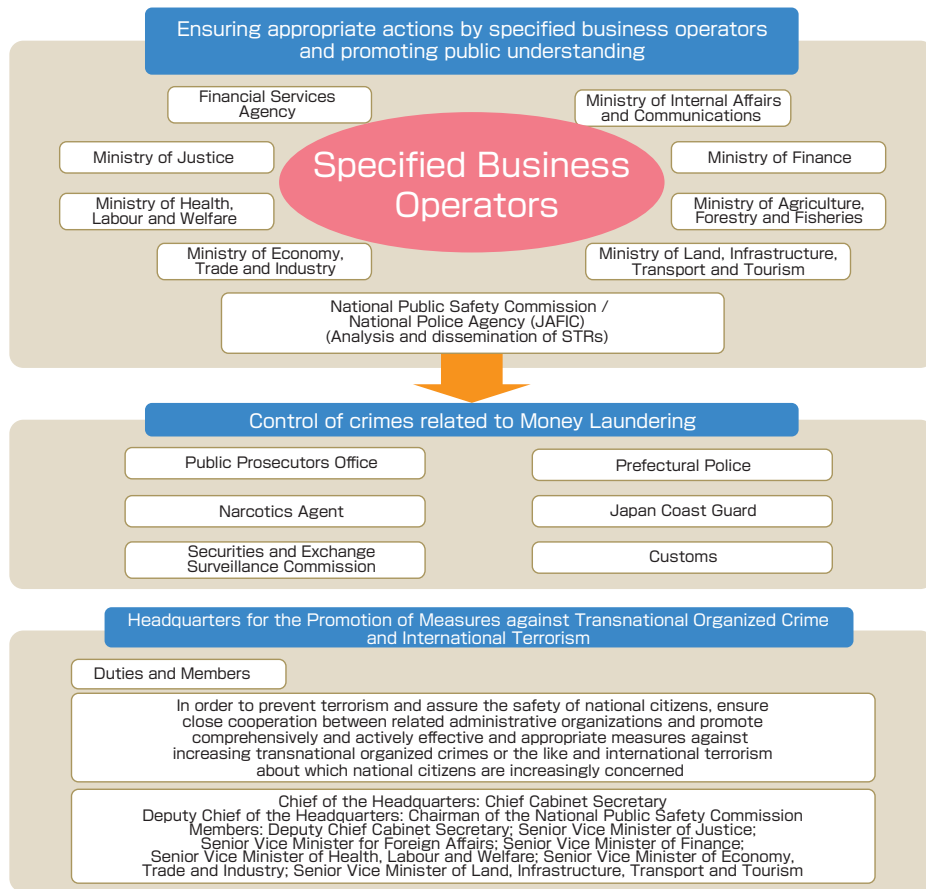


On the other hand, the “Task Force for fact-finding concerning criminal proceeds” is established in each Prefectural Police in charge of tracing criminal proceeds and investigating money laundering crimes etc.

Paragraph 3 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. In addition to the collection, arrangement, analysis, and dissemination of financial information, JAFIC endeavors to publicize the actual conditions of money laundering and legal systems and relevant countermeasures so that specified business operators can conduct customer due diligence measures 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 support by issuing Lists of Reference Cases of Suspicious Transactions and holding seminars in cooperation with industry organizations. On the other hand, investigative authorities and other bodies, such as the police, detect money laundering offences and predicate offences and confiscate

Figure 1-3 Anti-money Laundering Measures in Organization



criminal proceeds within their respective jurisdictions.

These ministries and agencies carry out their duties in each position, while also cooperating with each other by sharing useful information, discussing issues in preventing money laundering and other ways.

The “Ministerial Meeting Concerning Measures against Crime” which was launched by a Cabinet Meeting Agreement in September 2003, frequently discusses anti-money laundering measures. 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.

Paragraph 4 Guideline for promotion of the Criminal Proceeds Control

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 act,

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 of public awareness
- (2) Analysis and utilization of information on criminal proceeds
- (3) Promotion of crackdown on 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 for crimes related to 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 relations 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 Punishment of Organized Crimes, 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 the 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

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

Figure 1-4 Overview of the Guideline for Promotion of the Criminal Proceeds Control



Chapter 2

Legal Systems of Countermeasures against Money Laundering

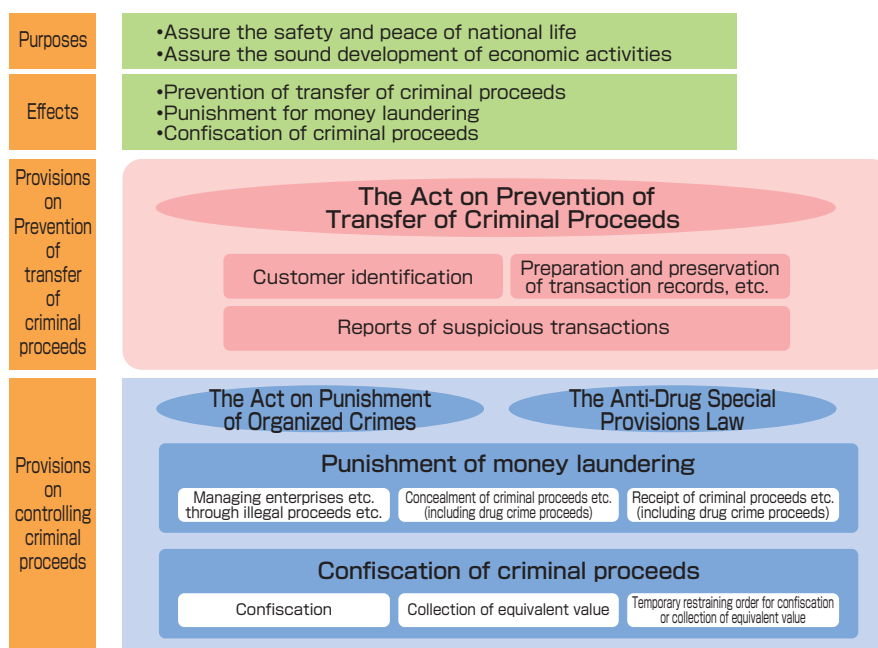
AML regime in Japan have been developed since the 1980s, in order to achieve the following three objectives:

- (1) Criminalization of money laundering
- (2) Confiscation of criminal proceeds
- (3) Imposing CDD and other necessary obligation on Financial Institutions and DNFBPs (Designated non-Financial Businesses and Professions)

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 the purpose of (3) is to prevent money laundering itself by making it easier to trace the transfer of illegal funds and making it more difficult to avoid prosecution and confiscation.

(1) and (2) above are realized mainly by the Anti-Drug Special Provisions Law and the Act on Punishment of Organized Crimes, and (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, Act on Punishment of Organized Crimes, and the Anti-Drug Special Provisions Law

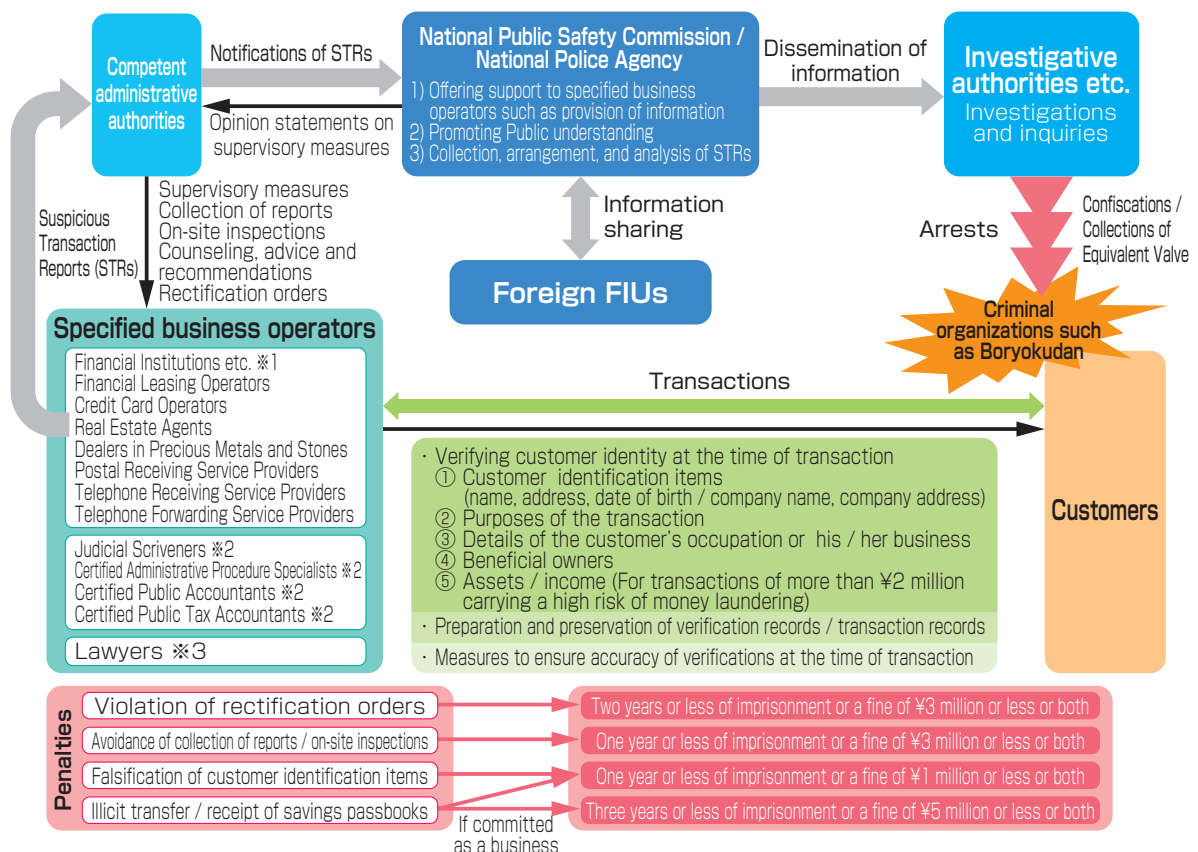


Section 1 Outline of the Act on Prevention of Transfer of Criminal Proceeds

The Act on Prevention of Transfer of Criminal Proceeds was created based on the two laws; the Customer Identification Act and a portion of the Act on Punishment of Organized Crimes in order to deal with changes in money laundering techniques more effectively and comprehensively in a way consistent with global standards set out by the FATF 40 Recommendations 2003 at that time. The act provides for preventive measures in combating money laundering and terrorist financing, by enforcing obligations on CDD, record keeping, filing STRs, etc. by financial institutions and DNFBPs.

In 2011, the following amendments were made to the Act for the first time since it was enacted in 2007: addition of verifying details for transactions; addition of telephone forwarding service providers to the list of specified business operators; addition of measures for accurate verification at the time of transactions; and increased punishments on illicit

Figure 2-2 Overview of the Act on Prevention of Transfer of Criminal Proceeds



※1 Amongst financial institutions etc., those operators involved in foreign exchange are required to provide notification on money remitters in addition to the above.

※2 Professions such as judicial scriveners, certified administrative procedure specialists, certified public accountants, and certified tax accountants are required to verify the information in ①Only.

※3 The Japan Federation of Bar Associations defines, in its bylaws, measures to ensure accurate verification on transactions, and preparation/preservation of verification records and transaction records by lawyers. These rules are based on examples of judicial scriveners and other professions contained in the Act on Prevention of Transfer of Criminal Proceeds.

transfer of passbooks, etc.

The following a few sections will explain the important parts of the act.

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

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, etc., concerning the prevention of terrorist financing 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 verification of customer identification data, preservation of transaction records or the like, and reporting of suspicious transactions by specified business operator, as described in 3, coupled with other measures stipulated by the Act on Punishment of Organized Crimes 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 Punishment of Organized Crimes 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)

Financial institutions and DNFBPs which fall under the Act and thus are required to perform CDD and other obligations, are called “Specified business operators,” the scope of which is designated in line with the FATF standards as well as in consideration of business practices in Japan. Financial institutions etc. have already been obliged to undertake identical measures required by the Customer Identification Act (abolished by enforcement of the Act on Prevention of Transfer of Criminal Proceeds) and other regulations.

Specified business operators

○Financial institutions, etc. (Item 1 through 36) (Pre-Amendment Items 1-33):

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; Securities finance company; Specially permitted business notifying person; Trust company; Self-trusteed companies; Real estate specified joint enterprise operator; Mutual loan company; Money lender; Call money market broker; Fund transfer companies, Futures commission merchant; 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 37) (Pre-amendment Item 34)
- Credit card operator (Item 38) (Pre-amendment Item 35)
- Real estate agents (Item 39) (Pre-amendment Item 36)
- Dealers in precious metals and stones (Item 40) (Pre-amendment item 37)
- Postal receiving service providers, telephone receiving service, providers and telephone forwarding service providers (Item 41) (Pre-amendment Item 38 (Telephone forwarding services providers were added as part of the 2011 amendment.))
- Lawyer or legal profession corporation (Item 42) (Pre-amendment Item 39)
- Judicial scrivener or judicial scrivener corporation (Item 43) (Pre-amendment Item 40)
- Certified administrative procedures specialists or administrative scrivener corporation (Item 44) (Pre-amendment Item 41)
- Certified public accountant or audit firm (Item 45) (Pre-amendment Item 42)
- Certified public tax accountants or certified tax accountant corporation (Item 46) (Pre-amendment 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 conduct appropriate measures in performing CDD, and to provide them with assistance including the provision of information on the modus operandi; regarding the transfer of criminal proceeds, 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 the investigation into criminal cases and related international cooperation.

5 Measures by Specified Business Operator

Under the act, specified business operators are obligated to engage in the following. Specified business operators, specified business affairs subject to obligations, specified transactions subject to the verification at the time of transaction, and related obligations are shown in Figure 2.

(1) Verification at the time of transaction (Article 4)

In conducting transactions falling under "specified transactions" or whenever money laundering is suspected behind the transactions because of, for example, their presenting false purpose of the transaction, verify identification data of a customer such as: the name and domicile by asking for his/her identification documents such as driver's license; purpose and intended nature of the transaction: type of business; information on the beneficial owner; etc. (for professions such as judicial scriveners, administrative scriveners, certified public accountants, or tax accountants, identification details alone

are sufficient).

For high risk transactions, enhanced measures must be taken, requiring additional information as to assets/income of the customer (under the revised Act 2011). (For details, see the Japan Financial Intelligence Center (JAFIC) Website.

Guidelines on verification to be made at the time of transactions are as shown in Figure 2-3.

(2) Preparation and preservation of verification records (Article 6)

Prepare and keep records of verification records collected at the time of transaction, as well as measures taken for verification of the customer at the time of the transaction, for seven years from the day when the transactions were completed or terminated;

(3) Preparation and preservation 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 8) (Pre-amendment Article 9)

Report transactions that are suspected of being related to criminal proceeds to a competent administrative authority, except for professions such as judicial scriveners;

(5) Notification pertaining to foreign exchange transactions (Article 9) (Pre-amendment Article 10)

In conducting exchange transactions pertaining to payment from Japan to foreign countries, 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 to ensure thorough and effective CDD measures to be taken (Article 10) (New)

Specified business operators are required to perform on going due diligence, and to set up other systems as necessary.

(7) Measures by lawyers (Article 11) (Pre-Amendment Article 8)

It is established by special provision, that lawyers shall conduct measures relevant to those described in (1) through (3) and (6) above based on The Rule of the Japan Federation of Bar Associations in line with cases of judicial scrivener etc.

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 offences and predicate offences and will prevent criminals from abusing economic and financial systems, so that its soundness can be assured. Measures (as noted in (6)) are intended to ensure accuracy of the customer identification process during transactions, making the process more efficient. These measures are expected to help business operators be more aware of money laundering risks, facilitating a greater degree of comprehensiveness and efficiency.

The purpose of notification pertaining to foreign exchange transactions described in (5)

is to enable tracing funds internationally.

Table 2 State of Correspondence of Specified Business Operators, Specified Business Affairs, Specified Transactions, and Obligations

Specified Business Operators (Paragraph 2 of Article 2)	Specified Business Affairs (Scope subject to obligations)	Specified Transactions (Verification required during transactions) (See Note 1)	Obligations
Financial Institutions etc. (Items 1 through 36)	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.	<ul style="list-style-type: none"> · Verification at the time of transactions (Article 4) · Preparation and preservation of verification records (Article 6) · Preparation and preservation of transaction records (Article 7) · Reporting of suspicious transactions (Article 8) · Measures to ensure accurate verification at the time of transactions (Article 10)
Financial Leasing Operators (Item 37)	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 (Item 38)	Credit card business affairs	Conclusion of contracts for the delivery or issuance of a credit card	
Real Estate Agents (Item 39)	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 (Item 40)	Business affairs which pertain to the buying and selling 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 (Item 41)	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 (Item 41)	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.	
Telephone Forwarding Service Providers (Item 41)	Telephone forwarding services Business affairs for providing a service of forwarding telephone on behalf of a customer.	Conclusion of contracts for the provision of service	(See Note 2)
Judicial Scriveners (Item 43) Certified Administrative Procedures Specialists (Item 44) Certified Public Accountants (Item 45) Certified Public Tax Accountants (Item 46)	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.	<ul style="list-style-type: none"> · Verification at the time of transactions (Article 4) (See Note 3) · Preparation and preservation of verification records (Article 6) · Preparation and preservation of transaction records (Article 7) · Measures to ensure accurate verification at the time of transactions (Article 10)
Lawyers (Item 42)	The Japan Federation of Bar Associations defines, in its bylaws, measures to ensure accurate verification on transactions, and preparation/preservation of verification records and transaction records by lawyers. These rules are based on examples of judicial scriveners etc. contained in the Act on Prevention of Transfer of Criminal Proceeds. (Article 11)		

Note 1: Excludes transactions with customers whose identifications have already been verified, except in cases where identity theft is suspected.

Note 2: Amongst financial institutions, those operators involved in foreign exchange are required to provide notification on remitters. (Article 9)

Note 3: Professionals such as judicial scriveners, certified administrative procedures specialists, certified public accountants, and certified tax accountants are required to verify customer identification items only.

The articles contained in the charts and notes above indicate the revised Act on Prevention of Transfer of Criminal Proceeds.

6 Dissemination of Information on Suspicious Transactions (Articles 12 and 13) (Pre-amendment Articles 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 and coast guards), customs officers and personnel of the Securities and Exchange Surveillance Commission, and to a foreign FIU under certain conditions.

7 Supervisory Measures (Articles 14 through 18, 24, 25 and 29) (Pre-amendment Articles 13 through 17, 23, 24, and 28).

This Act 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 rectification order 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 or both. A person who violates rectification order shall be punished with imprisonment with labor for not more than two years or a fine of not more than three million yen or both.

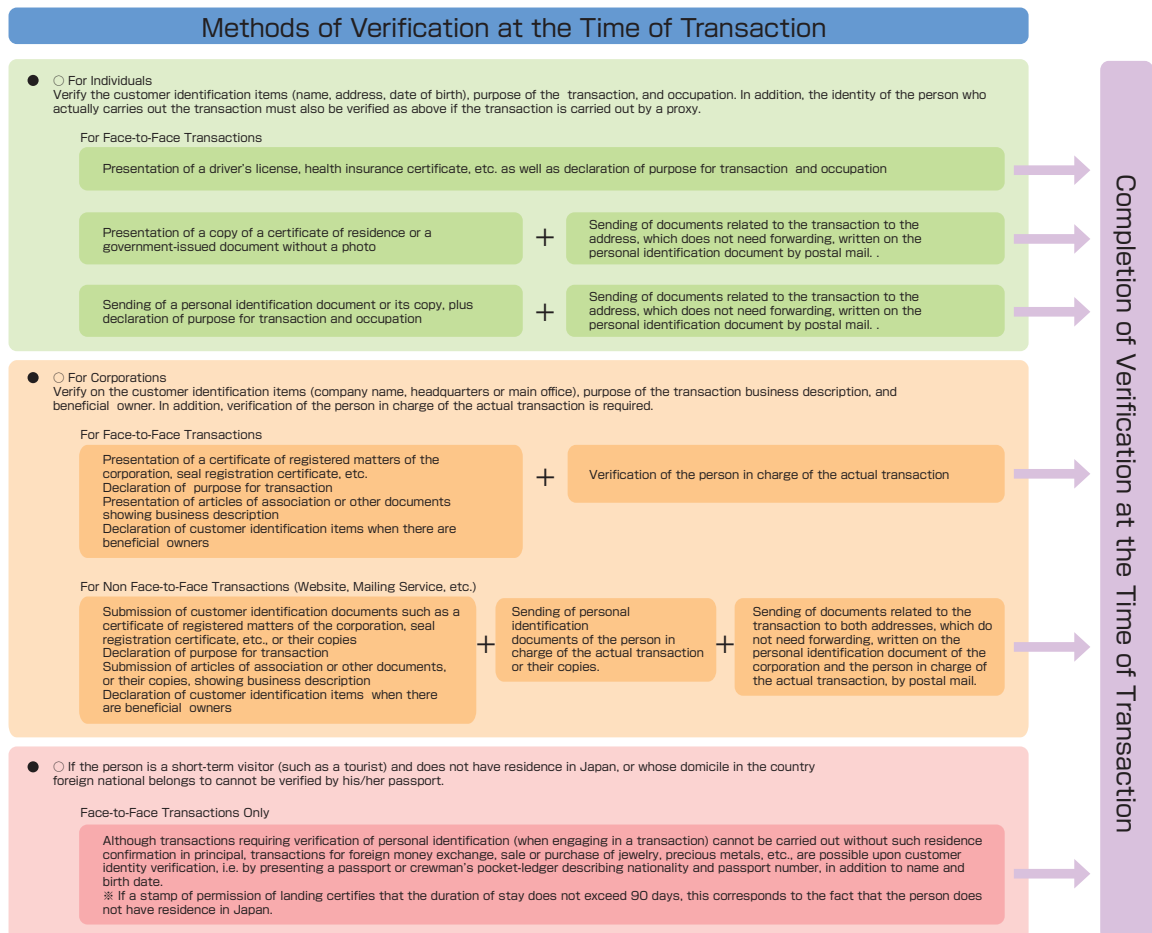
Moreover, to complement supervisory function, the National Public Safety Commission is authorized to state its opinion to competent administrative authorities and to make necessary inspections on business operators when it detects violations.

8 Penal Provisions regarding Reception/Delivery/Provision of Deposit/Savings Passbooks, Exchange Transaction Cards etc. (Articles 27 and 28) (Pre-amendment Articles 26 and 27)

Lots of deposit/savings passbooks, ATM cards, Exchange Transaction Cards etc. which were purchased have been 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 with imprisonment with labor for not more than one year or a fine of not more than one million yen or both and a man who has committed, as a business, these crimes shall be punished by imprisonment with work for not more than three years or a fine of not more than five million yen or both.

Furthermore, persons who invite or solicit another party to assign, deliver or provide a deposit/savings passbook etc., for value or for free, shall be punished imprisonment with labor for not more than one year or a fine of not more than one million yen or both.

Figure 2-3 Methods of Verification at the Time of Transaction



※ For transactions that carry a high risk of money laundering, verification of transaction purposes must be carried out with stricter criteria. And, for transactions of over ¥2 million, verifications of assets and income are also required.

Section 2 Outline of the Anti-Drug Special Provisions Law and the Act on Punishment of Organized Crimes

Paragraph 1 Anti-Drug Special Provisions Law

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” compiled in 1990, and enforced in July 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 Punishment of Organized Crimes, 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.

(1) 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.

(2) 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 from those who works under him, knowing that the money has been obtained from drug crime, is an example of this case.

2 Confiscation, Collection of Equivalent Value and Securance 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 securance order even before the prosecution upon request of a police officer etc. with a fixed period of 30 days, which could be renewable.

Paragraph 2 The Act on Punishment of Organized Crimes

The Act on Punishment of Organized Crimes was enacted in tandem with the extension of predicate offences in the revised FATF “40 Recommendations” of 1996 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 to those and certain other serious crimes.

The regulations related to the functions of FIU initially existed in the Act on Punishment of Organized Crimes, but they are now superseded by the Act on Prevention of Criminal Proceeds.

1 Punishment of Money Laundering (Article 9 through 11)

According to the Act on Punishment of Organized Crimes, 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 illicit proceeds shall be punished as another type of money laundering. The range of predicate offences that generate criminal proceeds is stipulated in the attachment to the Act on Punishment of Organized Crimes, to which additional predicate offences are added as necessary.

2 Confiscation, Collection of Equivalent Value and Securance Measures (Article 13 through 16, 22, 23, 42, 43)

The system of confiscation and collection of equivalent value provided in the Act on Punishment of Organized Crimes 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, securance measures have been established, and so on.

At the time of the enactment of the Act on Punishment of Organized Crimes, it was stipulated that so-called “crime victim property”, such as proceeds obtained through crime concerning property etc. may not be confiscated nor additional collections made in consideration of damage claims by victims. However, the law was partially revised (enforced in Dec. 2006) to enable confiscation or additional collection in certain cases—for example where the crime is considerably organized—in which it would be difficult to recover damages asserting rights to seek damages or other rights, or where money laundering is involved.

Chapter 3

Efforts of specified business operators and promotion of public awareness.

It is important to note that in order to effectively implement countermeasures against money laundering, it is critical that specified business operator obligations are properly enforced. To ensure that this happens, a variety of initiatives are implemented by organizations across industries. Also, the competent administrative authorities, along with the National Public Safety Commission/the National Police Agency, utilize workshops and website material to enlist the cooperation of specified business operators on these initiatives and to boost understanding of the Act on Prevention of Transfer of Criminal Proceeds.

In addition, if it is determined that a specified business operator is not fulfilling its obligations, then the National Public Safety Commission/the National Police Agency issue an Opinion Statement to a competent administrative authority, and the authority then issues a Rectification Order to the specified business operator.

Section 1 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 the 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 due diligence and suspicious transaction reporting, preparing and distributing seminar handbooks to its members, giving seminars for its members, and so on.

Furthermore, the JBA prepares leaflets, posters or the like to be provided to customers regarding customer due diligence procedure etc. In addition, the 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/CFT measures at the FATF, exchanging and sharing of information constantly with foreign bankers associations or the like, making responses to the FATF’s mutual evaluations of Japan, and so forth. As an example of the JBA playing a leading part in the efforts of the banking industry, is that it incorporated provisions on compliance including money laundering prevention and confrontation with anti-social forces into the JBA “Code of Conduct,” (revised in November, 2005), and prompted its members to put such into practice.

2 Efforts of Shinkin Banks(Credit Unions)

As for the credit union industry, in 1997 the National Association of Shinkin Banks established the Shinkin Banks Ethics Program (re-named the Shinkin Banks Action Program in 2005), the goal of which is the “elimination of anti-social forces” , representing efforts to observe laws and ordinances related to the Act on Prevention of Transfer of Criminal Proceeds and to eliminate transactions made by Boryokudan and other anti-social forces.

On the issue of countermeasures against money laundering, the Association has compiled and disseminated a guidebook entitled “Preventing Financial Crimes and Issues at the Teller’s Window.” The guidebook is designed as study material, providing correct knowledge for tellers on how to verify customer identity and report suspicious transactions based on the Act.

In addition, regarding the preparation of exclusionary clauses on the Boryokudan in relevant sectors, the Association has concluded various agreements incorporating such clauses as those on financial trading and deposit transactions. Cooperative financial institutions have also taken up an independent initiative in 2012 to partially revise their Articles of Incorporation to eliminate any anti-social activity from capital contributing members. The majority of Shinkin Banks has altered their Articles of Incorporation to accommodate these developments.

3 Efforts of Credit Cooperatives

In Japan, all credit cooperatives are members of the National Central Society of Credit Cooperatives. To ensure that countermeasures against money laundering and terrorist financing amongst member cooperatives are implemented, the Society compiles and gives examples of how to verify customer identity and how to handle suspicious transaction reports, and also informs members of these procedures by holding briefing sessions and training sessions. Furthermore, the Society compiles posters and leaflets to inform members about the customer due diligence procedure, distributing these to member cooperatives. The Society also takes thorough steps against money laundering and terrorist financing and on information sharing within the credit cooperative industry, for example by informing member cooperatives of parties subject to asset freezing as part of countermeasures against terrorist financing.

4 Efforts of Life Insurance Industry

The Life Insurance Association of Japan, of which domestic life insurance companies in Japan are members, works to achieve appropriate operations amongst its member companies by incorporating countermeasures against money laundering and terrorist financing as well as measures to cope with anti-social forces in its Code of Conduct. The Association has compiled the “Countermeasures Against Money Laundering and Terrorist Financing Handbook” and the “Countermeasures Against Money Laundering and Terrorist Financing FAQs” for both executives and regular employees, thereby assisting member companies in their efforts. In addition, the Association also devises posters and posts important points pertaining to the subject on its website.

To address the issue of anti-social forces, the Association has devised a directive entitled “Guidelines for Coping with Anti-social Forces in the Life Insurance Industry.” With a view to dissolving insurance contracts of parties found to be anti-social forces or that are engaged with anti-social forces in a manner unacceptable to society, the Association has compiled reference material for member companies entitled “Insurance Contract Rules and Regulations Regarding Anti-social Forces”. In addition, the Association works with the police and other external specialized institutions, creates industry databases on anti-social forces, and takes other necessary steps.

5 Efforts of Non-Life Insurance Industry

As for the non-life insurance industry, with a view to preventing money laundering, verification of customer identity procedures regarding savings-type insurance or large cash transactions exposed to a high risk of money laundering have been implemented since 1990. The General Insurance Association of Japan has acted on an industry-wide basis to draw up procedures related to customer identification as well as joint creation of posters for use in store locations. The Association has also compiled a letter to inform its agencies, which constitute the main channel for the sale of non-life insurance, of the issue.

In addition, the revised Act on Prevention of Transfer of Criminal Proceeds (to be enforced in April 2013), involves significant revision including additional items to be verified at the time of specified transactions. In response to these changes, the Association has compiled a set of Administrative Reference Materials to facilitate uniform and comprehensive verification of transactions and preparation/preservation of verification records. Moreover, as part of an effort to help customers better understand the process, the Association has set up a special page on its website, as well as compiled leaflets to be handed out to customers, both detailing additional items to be verified when a customer makes a transaction.

6 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 the “Securities Safety Liaison Committee Working-level Talks” in November 2006 to examine further measures to eliminate Boryokudan from the industry. In July 2007, “Elimination of Anti-social Forces from Securities Transactions and the Securities Market” was published as an interim report of the examination results of the abovementioned working-level talks.

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

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

7 Efforts of Moneylending Industry

Japan’s moneylending industry has a self-regulating body called the “Japan Financial Services Association.” In efforts to prevent damages caused by money laundering and terrorist financing activities and anti-social forces, the Association implements voluntary regulations, which has clarified relevant items for verification purposes to be added to internal regulations by member companies as self-regulation.

In addition, members are provided with reference materials such as guidelines or “model regulations” for use in formulating internal regulations. These guidelines show specific examples of relevant items to be included.

To ensure effective voluntary regulation, members were inspected on the full body of their internal regulations in FY2011, and guidance and instruction were provided where the adoption of relevant items was found to be insufficient. As a result, virtually all members (99%) have now devised compliant regulations.

In September FY2011, a Boryokudan exclusion clause was added to contract formats sold to members, and the revised format was posted on the Association’s website, enabling not only members but all moneylending businesses to view these materials, in efforts to facilitate the adoption of said clause.

The Association conducts both document and field work inspections. The Association audits member company compliance by assessing how well internal systems contained in the directive entitled “Preventing Damages Caused by Money Laundering, Terrorist Financing, and Anti-social Forces” are established.

The Association also notes information on preventing damages caused by money laundering, terrorist financing and anti-social forces on the Association’s website in order to familiarize association members with these issues.

8 Efforts of Fund Transfer Industry

The Japan Payment Service Association is a fund settlement cooperative whose purpose is to facilitate sound development of advanced payment means issuance services and fund transfer services, as well as to protect users. The Association engages in a variety of countermeasures against money laundering and terrorist financing. In 2010, the Association enacted voluntary regulations pertaining to member systems for accurate response to verification of customer identity and to suspicious transaction reporting for member of fund transfer businesses. In March 2011, the Association devised an internal regulation model, as well as a system to disseminate information on parties subject to asset freezing provided by the Financial Services Agency, also for fund transfer businesses.

In preparation for the full enforcement of the revised Act on Prevention of Transfer of Criminal Proceeds in April 2013, the Association provides advance announcements to members on information regarding the revised act, as well as providing this information on its website. The Association also takes up the issue of countermeasures against money laundering and terrorist financing amongst its members through workshops.

9 Efforts of Leasing Industry

The Japan Leasing Association is an industry organization comprised of companies engaged in the leasing business. In March 2008, the Association compiled and distributed an educational pamphlet targeting leasing customers regarding the Act on Prevention of Transfer of Criminal Proceeds. In September 2012, the Association compiled and distributed a pamphlet regarding the revised Act, which was also posted on its website along with related materials, in efforts to further familiarize association members with the issues.

In addition, the Japan Leasing Association holds an annual training program (advanced course), in which trainees, primarily leasing company managers, are trained in the Act on Prevention of the Transfer of Criminal Proceeds.

10 Efforts of Credit Industry

The Japan Consumer Credit Association has incorporated items on verification of customer identity and on suspicious reports based on the Act on Prevention of Transfer of Criminal Proceeds into its comprehensive credit purchase regulations established in December 2009, requiring that its member companies comply.

11 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 Anti-social 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 anti-social 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 agreeing to the development of a responsibility system within relevant business operators, and preparing and distributing brochures etc. for the purpose of enlightenment.

Ahead of the imminent enforcement of the revised Act on Prevention of Transfer of Criminal Proceeds, the Council has updated its handbook for realty professionals to reflect on the changes, as well as enhanced the Q & A section of the Handbook accordingly.

12 Efforts of Secondhand Goods Dealers

The Japan Ticket Association is comprised of licensed secondhand goods dealers who also engage in ticket sales. The Association has compiled a manual of obligations required by laws (the Act on Prevention of Transfer of Criminal Proceeds and the Antique Dealings Act) related to precious metal and foreign exchange transactions. This manual is intended to help familiarize members with countermeasures against money laundering.

13 Efforts of Lawyers

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., verifying 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 in July 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.

The Japan Federation of Bar Association is preparing for the revision of the abovementioned Rules to deal with the revised Act of Prevention of Transfer of Criminal Proceeds which stipulates strengthened preventive measures such as CDD measures.

14 Efforts of Judicial Scriveners

Upon extensive consideration of the relation between money laundering countermeasures and the work of judicial scriveners, the Japan Federation of Shiho-Shoshi Lawyer's Associations partially revised its "Federation Customer Verification and Record Preservation Criteria" in October 2007. Furthermore, on February 15th, 2008, a resolution was adopted by the Board of Directors to enact the "Regulations on Client Identity Verification." In accordance with this resolution, the Federation informed scrivener associations to emphasize to their members the importance of customer identity verification procedures and record preservation. In addition, on March 18, 2010, the Board of Directors enacted its "Working Policy on Preventing the Transfer of Criminal Proceeds," instructing scrivener associations to inform their members on the subject. The purpose of these efforts is to establish a working policy where scriveners take steps to avoid taking on any responsibility in cases in which there is a risk that their services might be misused for money laundering. In addition, the Japan Federation of Shiho-Shoshi Lawyer's Associations, the Block Judicial

Scrivener Associations, and other Judicial Scrivener Associations hold training sessions on the subject for both members and new employees. Since judicial scriveners must verify the personal identity of clients as part of their job duties, this training teaches them how to verify customer identity records and keep transaction records based on the Act on Prevention of the Transfer of Criminal Proceeds.

Upon the enactment of the revised Act on Prevention of Transfer of Criminal Proceeds, and in light of the 2011 annual Japan Financial Intelligence Center (JAFIC) report published on April 2, 2012, the federation informs its member Associations, and through them individual members, of the objectives of the revised law as well as money laundering crime trends, and also intends to provide relevant information for its members on its website.

15 Efforts of Certified Administrative Procedures Specialists

To facilitate implementation of the initiatives of the Act on Prevention of Transfer of Criminal Proceeds, the Japanese Association of Certified Administrative Procedures Specialists has compiled a handbook entitled “Handbook on Customer Identity Verification under the Act on Prevention of Transfer of Criminal Proceeds,” which has been distributed to all members. In addition, the Association presents information on the Act to its members through its website member pages in order to familiarize all members with the material.

16 Efforts of Certified Public Accountants

The Japanese Institute of Certified Public Accountants disseminates information on countermeasures against money laundering and terrorist financing, not only in regard to the Act on Prevention of Transfer of Criminal Proceeds but also as relates to the Act on Punishment of Organized Crimes, through member newsletters and the association website, in order to thoroughly familiarize members with these issues. In addition, the association conducts member workshops, in which it provides overviews of the Act on Prevention of Transfer of Criminal Proceeds and countermeasures against money laundering.

Section 2 Efforts for Specified Business Operators and other Parties

Paragraph 1 [Seminars and Provision of Information] etc. Targeted at Specified Business Operators in 2012

1 Explanations in Seminars for Financial Institutions

The NPA jointly held with the Financial Services Agency, seminars on “Suspicious Transaction Reporting” for financial institutions 14 times, at a total of 12 places around the country, from September to November 2012, where they explained case studies of suspicious transaction reporting from the investigative authorities and points which should be kept in mind when filing the reports etc., and provided them with information related to suspicious transaction reporting through answering questions made by employees of

financial institutions and other means.

2 Explanation on Workshops for Banking Industry

In June 2012, the Japanese Bankers Association held a seminar in the Tokyo Metropolitan area, where a briefing session on important points was provided by the Financial Services Agency on the subject of the revised Act on Prevention of Transfer of Criminal Proceeds.

Explanation at a Seminar



3 Explanation on Workshops for Shinkin Banks (Credit Unions)

In February 2012, the Shinkin Central Bank held a seminar in the Tokyo Metropolitan area, at which time the Financial Services Agency provided an overview and important points on the revised Act on Prevention of Transfer of Criminal Proceeds.

4 Formulation/Announcement of “Points to Consider on the Act on Prevention of Transfer of Criminal Proceeds”

The Financial Services Agency formulated and issued a directive entitled “The guideline for implementing the revised Act on Prevention of Transfer of Criminal Proceeds” for financial institutions (October 2012), while the Ministry of Economy, Trade and Industry did the same for financial leasing operators and credit card operators (November 2012), detailing enforcement of the customer verifying obligation and major points regarding the prevention of money laundering and terrorist financing under the Act on Prevention of Transfer of Criminal Proceeds.

In December 2012, the Ministry of Land, Infrastructure, Transport and Tourism formulated and issued its “Overview and Implementation of the revised Act on Prevention of Transfer of Criminal Proceeds: Key Points for Real Estate Agents.”

5 Arrangement of Policy on Guidelines by relevant Ministries and Agencies

The Ministry of Economy, Trade and Industry formulated and issued its “Basic Guidelines on the Installment Sales Act (Deferred Payment Sector)” in October 2012. These Guidelines included new inspection items for credit card business operators, i.e. items related to customer identity verification and record preservation and on suspicious transaction reporting, based on the Act on Prevention of Transfer of Criminal Proceeds.

In light of the revised Act on Prevention of Transfer of Criminal Proceeds, the Financial Services Agency partially revised its “The Comprehensive Supervisory Guidelines for Major Banks” and “Financial Inspection Manual” with a view to stepping up measures against crimes related to money laundering, terrorist financing, etc., in November 2012.

7 PR on Website

The website of JAFIC has been created within the National Police Agency website, and its annual reports, the current status of JAFIC's activities, and a description of the Act on Prevention of Transfer of Criminal Proceeds are made available for public viewing.

Website of the National Police Agency

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

Website of JAFIC

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

JAFIC Annual Report



Paragraph 2 Requests Made to Specified Business Operators following the Resolution of the United Nations Security Council

When the United Nations Security Council newly adopts a resolution on measures for freezing the assets related to a person or an 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 identification obligation and suspicious transaction reporting obligation on persons or organizations whose assets etc. can be targeted for freezing. And, the targeted persons or organizations of the said measures shall be listed on the website.

1 Measures based on the resolutions of the United Nations Security Council

Japan imposes asset freezing measures on parties associated with the Taliban according to the resolutions of the United Nations Security Council. Every time the list of such parties is revised, the National Police Agency requires specified business operators through supervisory authorities to fulfill their obligation of due diligence and ensure the reporting of all suspicious transactions. Such a requirement was made a total of nine times in 2012.

2 Measures based on the FATF Public Statement

The Plenary Meeting of the FATF held in February 2012 adopted the Statement which calls on all FATF member countries and regions to apply countermeasures to protect the

international financial system from money laundering and terrorist financing risks emanating from Islamic Republic of Iran and North Korea. In response, the National Police Agency has required through supervisory authorities that specified business operators fulfill their obligation of customer due diligence in accordance with the Act on Prevention of Transfer of Criminal Proceeds, and ensure the reporting of all suspicious transactions.

The FATF Plenary Meetings held in June and October 2012 also adopted a statement concerning the jurisdictions having strategic deficiencies in the measures against money laundering and terrorist financing. The National Police Agency consequently made the same requirement through supervisory authorities.

Section 3 Progress of the collection of reports and opinion statements in 2012

1 Collection of Reports and Opinion Statements by the National Public Safety Commission/the National Police Agency

When suspicion surfaces during the investigation of Furikome fraud or other crimes by the Prefectural Police with regard to the violation of the obligation of customer identity verification 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 operators for submission of reports or gives directions to the relevant prefectural Police on necessary inquiry.

In 2012, the National Public Safety Commission/the National Police Agency made nine requests to submit report to Postal Receiving Service Providers etc., and gave three directions to Prefectural Police to make necessary inquiry. In addition, based on the result of the past report collection, the National Public Safety Commission/the National Police Agency issued ten opinion statements to competent administrative authorities in charge of supervising specified business operators; specifically, eight statements to the Minister of Economy, Trade and Industry, which is the authority over postal receiving service providers; one to the Minister of Internal Affairs and Communications, which is the authority over telephone receiving service provider; and one to a Prefectural Governor, which is the authority over certified administrative procedures specialists. The purpose of these statements is to encourage these authorities to take necessary measures that will rectify the violations of the Act by their supervising specified business operators. No on-site inspections were performed .

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

	2008	2009	2010	2011	2012
Number of requests to submit reports to specified business operators	11	16	7	5	9
Number of directions to conduct inquiry to prefectural police	1	2	10	3	3
Number of opinion statements made to competent administrative authorities	4	9	13	10	10

Note: The reports and statements of 2008 are those made after March 1.

2 Issuing of Rectification Order by Competent Administrative Authorities Based on Opinion Statements

In 2012, in light of Opinion Statements issued by the National Public Safety Commission/ the National Police Agency, the Minister of Economy, Trade and Industry issued eight Rectification Orders to postal receiving service providers, while the Governor of Hiroshima Prefecture issued one Rectification Order to an certified administrative procedures specialist.

This is the first case where the Opinion Statement was released and Rectification Order was issued to the certified administrative procedures specialist since the enforcement of the Act on Prevention of Transfer of Criminal Proceeds.

Rectification Order against an certified administrative procedures specialist

A male certified administrative procedures specialist undertook a request from a party that had established a fictitious company, which was in fact an attempt to defraud a bank account. When the certified administrative procedures specialist acted as the agent for the offices of the fictitious corporation, he neglected his obligation to verify the identity of the customer as stipulated in the Act on Prevention of Transfer of Criminal Proceeds. This prompted the National Public Safety Commission/the National Police Agency to release an Opinion Statement recommending that the Governor of Hiroshima Prefecture, who is the competent administrative authority overseeing certified administrative procedures specialist in its jurisdiction, issued a Rectification Order demanding proper observation of the Act.

3 Arrests in Violation of Rectification Orders

A postal receiving service provider who had violated the Rectification Orders issued by the Minister of Economy, Trade and Industry was arrested in violation of the Act on Prevention of Transfer of Criminal Proceeds (Rectification Order violation).

This arrest on Rectification Order violation was the first of such arrest since the enforcement of the Act on Prevention of Transfer of Criminal Proceeds.

Arrest of Postal Receiving Service Provider on Violation of Rectification Order

A male postal receiving service provider neglected his obligation to verify the identity of a customer as stipulated in the Act on Prevention of Transfer of Criminal Proceeds. This prompted the National Public Safety Commission/the National Police Agency to release an Opinion Statement recommending that the Minister of Economy, Trade and Industry, which is the competent administrative authority overseeing postal receiving service providers, to issue a Rectification Order demanding proper observation of the Act. The individual was arrested after ignoring the Rectification Order to appropriately enforce proper customer identity verification in violation of the Act on Prevention of Transfer of Criminal Proceeds. (Tokyo Metropolitan Police Department)

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 Punishment of Organized Crimes.

Section 1 System Outline

1 Purpose

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

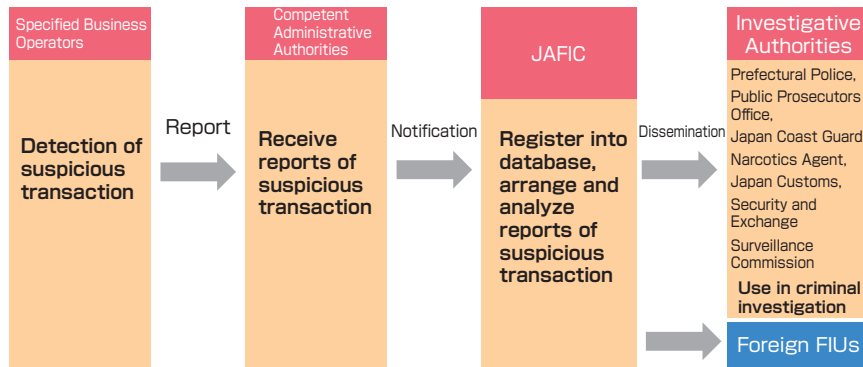
2 Flow of Suspicious Transaction Reporting

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 suspicious transaction reports (STRs), check the importance of them, and then disseminates the useful information to investigative authorities such as the Prefectural Police, the Public Prosecutors Office etc.

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

Furthermore at JAFIC, a detailed analysis of STRs is carried out by using the information accumulated by the police, and the results of analysis are disseminated to related investigative authorities.

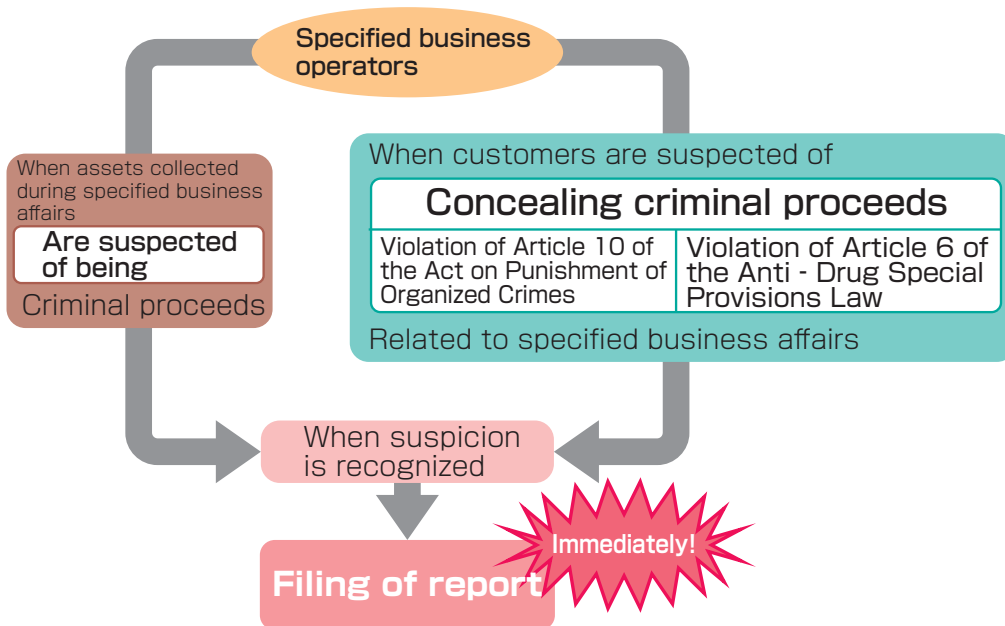
Figure 4-1 Flow of STRs from Specified Business Operators, through JAFIC to Investigative Authorities



3 Cases in which Reporting is Required

Under Article 8 (pre-revision Article 9) of the Act on Prevention of Transfer of Criminal Proceeds, considering factors such as findings made in the verification process, specified business operators (excluding professions such as lawyers and certified accountants) are required to promptly file an STR to the competent administrative authority when they suspect, during the course of their businesses, that assets they received are criminal proceeds or that their client commits an offence of concealment of criminal proceeds (i.e. violations of Article 10 of the Act on Punishment of Organized Crimes or Article 6 of the Anti-Drug Special Provisions Law).

Figure 4-2 Cases where STRs are required



4 List of Reference Cases of Suspicious Transactions

Specified business operators are expected to decide 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, competent administrative authorities have announced “reference cases of suspicious transactions,” based on the characteristics of respective specified business operators. These reference cases are however just samples of suspicious transactions and are intended merely for reference.

This means, it is necessary for the specified business operators 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.

5 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 the Prefectural Police etc. in order to make use of it in arranging and analyzing information regarding STRs, and as part of information provision from NPSC to the specified business operators that is regulated in Article 3 of the Act on Prevention of Transfer of Criminal Proceeds.

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 NPSC.

In particular, since a large amount of information is stored in the database system which manages suspicious transactions, sufficient security measures need to be taken. Various security measures put in place at 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 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 reported 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. Hence, 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.

Section 2 Situation of STRs in 2012

1 Change in the Number of Reported Cases

Although the suspicious transaction reporting system was established with the enforcement of the Anti-Drug Special Provisions Law in 1992, less than 20 reports were received 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 Punishment of Organized Crimes in 1999, crimes which are subjects of suspicious transaction reports were expanded from drug-related crimes to serious crimes, and the number of reports received exceeded 1,000 cases in the same year. Since the enforcement of the Act on Punishment of Organized Crimes in the year 2000, the number of reports has increased each year, and has rapidly increased since the partial enforcement of the Act on Prevention of Transfer of Criminal Proceeds in 2007. The number of reports received in 2012 was 364,366, an increase of 27,025 cases (8.0%) compared to the previous year (see Table 4-1 and Figure 4-3).

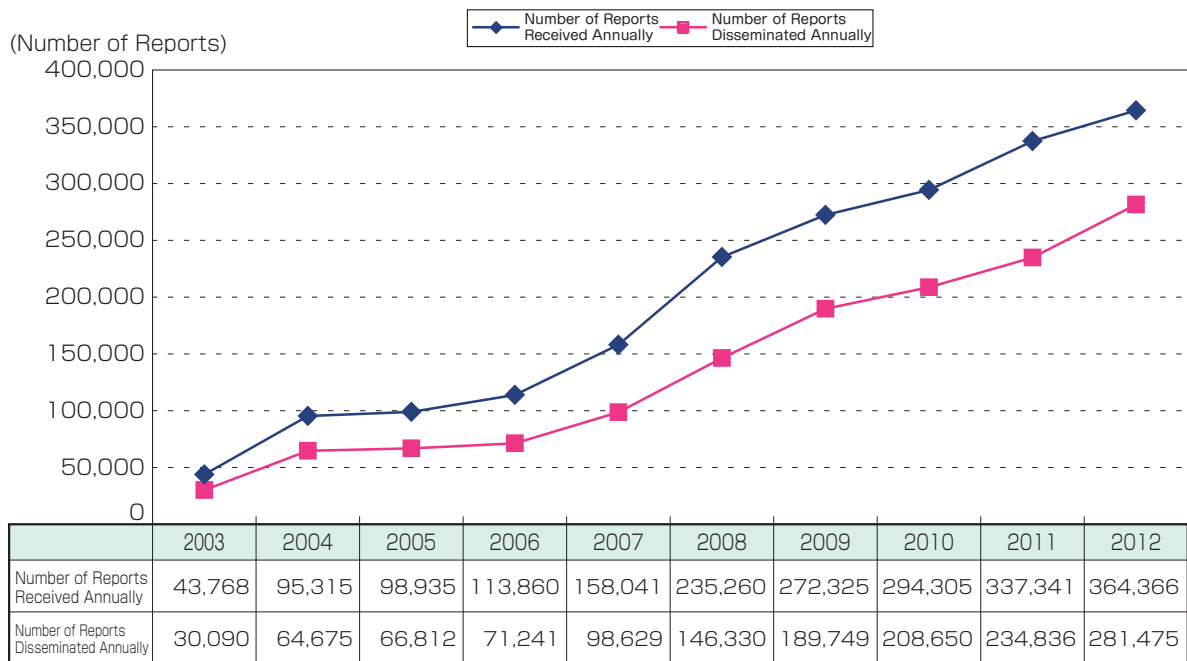
The number of cases in which information on suspicious transactions was eliminated by the Director for Prevention of Money Laundering was zero in 2012.

Table 4-1 Number of Suspicious Transaction Reports Received (1992-2002)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Yearly number of Reports Received	12	17	6	4	5	9	13	1,059	7,242	12,372	18,768

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

Figure 4-3 Trend Diagram of Number of STRs (2003-2012)



Note 1: "Number of Reports Received" (2003-2012) is the total number of the reports received by the Financial Services Agency(JAFIO) until March 2007 and those received by the National Public Safety Commission/the National Police Agency (JAFIC) after April 2007.

Note 2: "Number of Reports Disseminated" (2002-2011) is the total number of the reports disseminated by JAFIO to the National Police Agency until March 2007 and those disseminated by JAFIC to investigative authorities etc. after April 2007.

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

- The monitoring system for anti-social forces and illegal funds transfer has been reinforced by financial institutions etc., with the progress of compliance awareness in society.
- The education on the cases of suspicious transactions through seminars for financial institutions etc. in the past has a positive effect.

Moreover, financial institutions etc. have taken various measures, both tangibly and intangibly. In particular, financial institutions that submit numerous STRs have promoted training on countermeasures against money laundering by 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 the number of 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 2012 is shown in table 4-2. Banks etc. have the highest number of reports with 333,868 cases, or 91.6% of all reports, followed by Shinkin banks and credit cooperatives (13,521 cases, or 3.7%), and financial instrument business operators (5,998 cases, or 1.6%) (see Table 4-2).

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, and Telephone Receiving Service Providers) totaled 3,853 cases, an increase of 1,415 cases (58.0%) from the previous year.

Table 4-2 Number of STRs by Each Business Type

Category	Year		2008		2009		2010		2011		2012	
	Number of reports	%	Number of reports	%	Number of reports	%	Number of reports	%	Number of reports	%	Number of reports	%
Financial Institutions etc.	234,745	99.8%	270,628	99.4%	292,529	99.4%	334,903	99.3%	360,513	98.9%		
Depository Institutions	230,700	98.1%	265,051	97.3%	283,971	96.5%	324,600	96.2%	348,831	95.7%		
Banks etc.	216,828	92.2%	253,668	93.1%	272,215	92.5%	311,298	92.3%	333,868	91.6%		
Shinkin Banks and Credit Cooperative	13,218	5.6%	10,941	4.0%	11,156	3.8%	12,453	3.7%	13,521	3.7%		
Labour Banks	234	0.1%	161	0.1%	243	0.1%	248	0.1%	357	0.1%		
Norinchukin Banks etc.	420	0.2%	281	0.1%	357	0.1%	601	0.2%	1,085	0.3%		
Insurance Companies	113	0.0%	183	0.1%	202	0.1%	677	0.2%	1,837	0.5%		
Financial Instruments Business	3,264	1.4%	3,821	1.4%	5,666	1.9%	6,758	2.0%	5,998	1.6%		
Money Lending Business	509	0.2%	1,148	0.4%	634	0.2%	581	0.2%	1,628	0.4%		
Fund Transfer Companies					73	0.0%	344	0.1%	380	0.1%		
Commodity Futures Traders	57	0.0%	7	0.0%	13	0.0%	5	0.0%	3	0.0%		
Currency Exchanging Operators	102	0.0%	418	0.2%	1,970	0.7%	1,937	0.6%	1,835	0.5%		
Electronic Monetary Claim Recording Institutions	0	0.0%	0	0.0%	0	0.0%	1	0.0%	1	0.0%		
Financial Leasing Operators	64	0.0%	60	0.0%	83	0.0%	45	0.0%	109	0.0%		
Credit Card Operators	365	0.2%	1,510	0.6%	1,617	0.5%	2,350	0.7%	3,664	1.0%		
Real Estate Agents	21	0.0%	33	0.0%	21	0.0%	5	0.0%	10	0.0%		
Dealers in Precious Metals and Stones	8	0.0%	0	0.0%	19	0.0%	4	0.0%	28	0.0%		
Postal Receiving Service Providers	57	0.0%	92	0.0%	36	0.0%	34	0.0%	42	0.0%		
Telephone Receiving Service Providers	0	0.0%	2	0.0%	0	0.0%	0	0.0%	0	0.0%		
Total	235,260	100.0%	272,325	100.0%	294,305	100.0%	337,341	100.0%	364,366	100.0%		

3 Number of Reports Classified by Methods

According to reports of suspicious transaction by method, report by electronic application using the e-governance on-line window (e-Gov), or other means (for example, sending documents etc. to the competent administrative authority) are described in Table 4-3.

Table 4-3 Number of Reports Classified by Method

Notification Method	2008		2009		2010		2011		2012	
	Number of reports	%	Number of reports	%	Number of reports	%	Number of reports	%	Number of reports	%
Electronic Application	111,921	47.6%	156,291	57.4%	172,394	58.6%	184,774	54.8%	236,882	65.0%
Other Methods	123,339	52.4%	116,034	42.6%	121,911	41.4%	152,567	45.2%	127,484	35.0%
Total	235,260	100.0%	272,325	100.0%	294,305	100.0%	337,341	100.0%	364,366	100.0%

Report rate by electronic application in 2012 was 65.0%, an increase of 10.2 points from the previous year.

JAFIC has made efforts to publicize notification by electric application through workshops targeting specified business operators in order to reduce the load of the reporting entities.

Section 3 Dissemination and Use of STRs in 2012

Paragraph 1 Dissemination

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

The number of reports on suspicious transactions provided to investigative authorities etc. has grown every year, which was 281,425 in 2012, an increase of 46,639 cases (19.9%) from the previous year. (See figure 4-3). There were two requests for sending copies of records of the information on suspicious transactions made by investigative authorities etc.

Paragraph 2 Use of STRs in the Prefectural Police

The number of cases cleared by prefectural police that were initiated with information in STRs ("STR initiated cases") has increased every year. The number was 886 in 2012, an increase of 316 cases (55.4%) from the previous year.

Table 4-4 shows the STR-initiated cases categorized by crime type.

Table 4-4 Number of STR-initiated cases by type of crime

Crime	Year				
	2008	2009	2010	2011	2012
Fraud	132	265	258	360	470
Violation of Act on Prevention of Transfer of Criminal Proceeds	15	48	76	145	239
Fraud and Violation of Financial Instruments and Exchange Act	0	0	0	0	1
Fraud and Violation of Stimulants Control Act	0	0	0	0	1
Computer Fraud and Violation of Act on Prevention of Transfer of Criminal Proceeds	0	0	0	0	1
Violation of Mobile Phone Improper Use Prevention Act	0	0	0	0	1
Violation of Mobile Phone Improper Use Prevention Act and Act on Prevention of Transfer of Criminal Proceeds	0	0	0	0	1
Violation of Immigration Act	3	4	5	6	106
Violation of Stimulants Control Act	0	0	16	17	16
Forgery and use of private documents and fraud	0	0	0	0	4
Use of counterfeit official documents and fraud	0	0	0	0	2
Use of counterfeit official documents, forgery and use of private documents and fraud	0	0	0	0	2
False entries in the original of notarized deeds and use of counterfeit official documents	0	0	0	0	1
Falsification and supply of electromagnetic records of officially authenticated documents	2	0	3	3	1
Falsification and supply of electromagnetic records of officially authenticated documents and fraud	0	0	0	0	1
Sharing of unauthorized creation of electromagnetic records of payment cards and fraud	0	0	0	1	1
Violation of the Passport Act	0	0	1	0	1
Violation of the Amusement Business Law	1	0	0	0	4
Violations of the Amusement Business Law and Immigration Control Act	0	0	0	0	2
Violation of the Secondhand Articles Dealer Act	0	0	0	0	1
Violation of Money Lending Business Act and Investment Deposit and Interest Rate Act	6	5	2	5	3
Violation of Money Lending Business Act	3	1	2	3	2
Violation of Interest Deposit and Interest Rate Act	3	3	5	2	1
Violation of Worker Dispatching Act	0	0	1	4	2
Violation of the Construction Business Act	0	0	0	0	1
Violation of the Trademark Law	1	0	2	1	1
Violation of the Copyright Act	0	0	0	0	1
Violation of the Unfair Competition Prevention Act	0	0	0	0	1
Violation of the Companies Act	1	0	0	0	1
Obstruction of compulsory execution	0	0	0	0	1
Breach of trust	0	0	0	0	1
Violation of the Administrative Scrivener Act	0	0	0	0	1
Violation of the Attorney Act	0	0	0	0	1
Violation of the Banking Act	3	1	2	3	1
Theft	0	2	1	0	2
Acceptance/passing of bribes and fraud	0	0	0	0	1
Aiding suicide	0	0	0	0	1
Extortion	1	2	2	2	1
Violation of the Act on Punishment of Organized Crimes (Systematically running a gambling place for purpose of gain)	0	0	0	0	1
Fraud and violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds etc.)	0	0	0	0	2
Computer fraud and violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds etc.)	0	0	0	0	1
Violation of the Moneylending Business Act, the Investment Deposit and Interest Rate Act and the Act on Punishment of Organized Crimes (concealment of criminal proceeds etc.)	0	0	0	0	1
Violations of the Vehicle Recycling Law and the Act on Punishment of Organized Crimes (receipt of criminal proceeds etc.)	0	0	0	0	1
Violations on the Act on Punishment of Organized Crimes (concealment of criminal proceeds etc.)	0	1	0	0	1
Others	4	5	14	18	0
Total	175	337	390	570	886

Note 1: The formal titles of the laws are as follows:

- The Mobile Phone Improper Use Prevention Act is the Act on Identification by Mobile Voice Communications Carriers of their Subscribers and for Prevention of Improper Use of Mobile Voice Communications Services.

- The Immigration Act is the Immigration Control and Refugee Recognition Act
- The Investment Deposit and Interest Rate Act is the Act Regulating the Receipt of Contributions, Receipt of Deposits and Interest Rates.
- The Amusement Business Act is the Act on Control and Improvement of Amusement Businesses, etc.
- The Worker Dispatching Act is the Act on Securing the Proper Operation of Worker Dispatch Business and Improvement of Working Conditions for Dispatched Workers.
- The Vehicle Recycling Law is the Law on Recycling of End-of-Life Vehicles.

Note 2: "Violation of the Act on Prevention of Transfer of Criminal Proceeds" includes violation of the Customer Identification Act.

The following describes each type of the violation.

- The number of fraud-related cases (fraud, computer fraud and violations of the Act on Prevention of Transfer of Criminal Proceeds, the Financial Instruments and Exchange Act, and the Mobile Phone Improper Use Prevention Act) totaled 714, the largest number that comprises 80.6% of all cases. Arrests have been made for the fraud or the transfer of savings passbooks, as well as on fraud cases using internet auctions, public assistance fraud committed by *Boryokudan* members, and fraud committed on the pretext of purchasing unlisted stocks, among other cases.
- Illegal stay offenses (violations of the Immigration Act) totaled 106. These included foreign nationals who had stayed in Japan beyond the period of stay authorized or engaged in activities other than those stipulated in their visa status.
- Drug crimes (violation of the Stimulants Control Act) totaled 16. Arrests were made for the possession and/or smuggling of stimulants.
- Forgery-related cases (forgery and/or use of private document, use of forged official document, making false entries in the original of notarized deeds, and use of such documents, false entries in the original of an electromagnetic notarized deed and use of such documents, sharing of unauthorized creation of electromagnetic records of payment cards, and Passport Law violations) totaled 13. Arrests were made on fraudulent commercial registrations and on sham marriages.
- Permission and authorization related cases (Amusement Business Act, Secondhand Articles Dealer Act) totaled 7. Arrests were made on proprietors of sex parlors in prohibited zones, in violation of the Amusement Business Act, and on unauthorized dealings in secondhand goods, in violation of the Secondhand Articles Dealer Act.
- The number of black market finance cases (violation of the Money Lending Business Act and the Investment Deposit and Interest Rate Act) was 6, which included arrests for unregistered business operation and high-interest lending in violation of the Money Lending Business Act and the Investment Deposit and Interest Rate Act.
- Three cases were related to the Construction Act (violation of the Worker Dispatching Act and the Construction Industry Act). Arrests were made for making workers engage in a construction project in which the assignment of dispatched workers was prohibited, thereby violating the Worker Dispatching Act, and were made getting permission with fraud, thereby violating the Construction Industry Act.
- Offences regarding intellectual property rights (violations of the Trademark Act, the Copyright Act, and the Unfair Competition Prevention Act) totaled 3. Arrests were made on the sale of counterfeit brands in violation of the Trademark Act, on the sale of unauthorized character merchandise in violation of the Copyright Act, and on falsified

- statements regarding manufacturing origin of clothing in violation of the Unfair Competition Prevention Act.
- Offences related to corporations (violations of the Companies Act, obstruction of compulsory execution and breach of trust) totaled 3. Arrests were made on fraudulent accounting in the acquisition of corporate shares, in violation of the Companies Act, and on obstruction of court enforcement for concealing accounts receivable.
 - Offences related to professions such as certified administrative procedures specialists (violations of the Administrative Scrivener Act and the Attorney Act) totaled 2. Arrests were made on charges of failure to verify both concerned parties in the process of compiling documents and failure to enter information in legal ledgers in violation of the Administrative Scrivener Act, and on charges of earning compensation and/or operating law offices without the proper certification in violation of the Attorney Act.
 - Cases regarding underground banks (violation of the Banking Act) totaled 1, in which foreigners in Japan were arrested for violating the Banking Act by committing unauthorized overseas remittances.
 - Two arrests were made on theft, one in which the offender used an illegally obtained ATM card, and another in which the offender repeatedly shoplifted cosmetics from a storefront.
 - One arrest was made on bribery taken by a corrupt government official.
 - One arrest was made on the crime of aiding suicide.
 - There was one extortion case, in which an arrest was made for extortion committed by Boryokudan members on the pretext of debt collection.
 - One arrest was made on a gambling offence in violation of the Act on Punishment of Organized Crimes (running a gambling place for profit), involving organized gambling by Boryokudan members.
 - Six arrests were made on money laundering offences in violation of the Act on Punishment of Organized Crimes (concealment and receiving of criminal proceeds), specifically concealment of various types of criminal proceeds and receiving of such proceeds.

The number of money laundering cases from the STR-initiated cases in 2012 was 15. STR-initiated cases by predicate crime type shows that fraud, violation of the Money Lending Business Law, and violation of the Investment Deposit and Interest Rate Act come to 10 cases, and accounted for 66.7% of the total (see Table 4-5).

Table 4-5 The number of cases in which STRs led to arrests made for money laundering crimes

Predicate offenses	Year	2008	2009	2010	2011	2012
	Fraud		2	4	10	9
Violation of the Money Lending Business Act and the Investment Deposit and Interest Rate Act		6	4	5	5	3
Violation of the Money Lending Business Act		0	0	0	0	1
Theft		0	0	0	0	2
Computer fraud		0	0	0	0	1
Violation of the Stimulants Control Act		0	0	0	0	1
Violation of the Trademark Law		1	1	0	1	1
Others		0	0	2	2	0
Total		9	9	17	17	15

In 2012, the number of cases that reached confiscation and collection of equivalent value based on STRs stood at 4 (see Figure 4-6).

Table 4-6 Number of Cases that Reached Confiscation and Collection of Equivalent Value Based on STRs

	2008	2009	2010	2011	2012
Confiscation	3	0	5	5	4
Collection of Equivalent Value	(1)	0	(4)	1(4)	(1)
Total	3(1)	0	5(4)	6(4)	4(1)

Note 1: The number in parentheses indicates the number of the cases which overlap with confiscation.

Note 2: When the cases was cleared.

In the investigations not initiated with STRs, STRs are still a valuable source of information used by Prefectural Police in countermeasures against organized crime.

The number of STRs used for investigation by prefectural police has grown annually. The number was 188,321 in 2012, an increase of 82,544 cases (78.0%) from the previous year (see Table 4-7).

Table 4-7 Number of STRs Used for Investigative Purposes

	2008	2009	2010	2011	2012
Number of STRs used in investigation of initiated cases	668	1,261	1,642	2,674	3,811
Number of STRs used in investigation of cases other than the abovementioned cases	44,199	68,680	86,418	103,103	184,510
Total	44,867	69,941	88,060	105,777	188,321

Note 1: "Number of STRs used in investigation of initiated cases" includes the number of all STRs used for arrest.

Note 2: In cases where investigations have been initiated by STRs but are still ongoing, these STRs are counted under "Number of STRs used in investigation of cases other than the abovementioned cases".

JAFIC tries to obtain a realistic view of the movement of funds of the anti-social 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 as well as publicly available information.

These analyses have revealed that anti-social forces make use of Boryokudan affiliated companies and investment partnerships, 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 anti-social forces originate from criminal proceeds, there are many cases that their involvement in predicate offences is obscured because various fund activities or utilization in various ways make its source unclear.

As recent cases of arrests typically show, anti-social forces often use affiliated companies as cover, hiding any connection with anti-social forces, 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 anti-social forces opaque.

Therefore, in order to have a clearer vision of the actual conditions of fund-raising activities by anti-social forces, JAFIC is convinced that it is important to continue to monitor and trace the movement of funds of anti-social forces, and to enhance the control of illegal activities committed through the utilization of the analysis of STRs as well as close cooperation with authorities concerned, such as, investigative authorities, etc. and foreign FIUs.

Paragraph 3 Use of Reports by National Investigative Authorities etc.

1 Utilization of STRs by Prosecutor's Offices

STRs are used in cases sent by investigative authorities as well as in conducting its own secret investigation. STRs are useful in identifying further crimes and accomplices in combination with corroboration of statements by offenders and associated parties and identification of bank accounts suspected of use in crime.

In addition, the utilization of STRs facilitates sustained monitoring of information on the movement of money related to *Boryokudan* and other specified organizations, enabling assessment of trends on organizations that are highly likely to be involved in crime.

2 Utilization of STRs by Narcotics Control Department

The Health, Labour and Welfare Ministry's Narcotics Control Department utilizes STRs to help identify bank accounts of narcotics dealers and their business partners and other associated parties, as well as to ascertain transactions. It also conducts investigations on information derived from materials obtained, and facilitates drug crime investigations including the arrest of offenders and confiscation of narcotics.

3 Utilization of STRs by the Japan Coast Guard

The Japan Coast Guard utilizes STRs to examine any correlation with other suspicious transactions, working to stop smuggling and illegal migration, and facilitating criminal

investigations and crackdowns on other types of illegal activities.

Information on possible smugglers such as the existence of accounts or transactions with financial institutions, suspicious transactions such as large overseas remittances, overseas remittances by suspicious companies, and the existence of business partners can be confirmed or refuted based on the information contained in STRs. This helps authorities to remain aware of the transfer of funds that could possibly be criminal proceeds.

In addition, the Coast Guard requests information on possible smugglers to foreign FIUs through the National Police Agency. Provided with information on the possible smugglers as well as parties (individuals and companies) associated with said possible smugglers, the Coast Guard is able to ascertain previously undetected relationships.

4 Utilization of STRs by Customs

Customs maintains and shares a database of STRs. By referencing STRs with various types of information otherwise obtained by customs, customs can identify associations and apply said associations to investigations on Customs Act offenders. This strengthens initiatives to stop smuggling of items that pose a threat to public safety and security.

5 Utilization of STRs by the Securities and Exchange Surveillance Commission

The Securities and Exchange Surveillance Commission conducts investigations of potentially criminal cases with a view to criminal prosecution on malicious activity in the financial instrument trading sector, including fraudulent securities reports (fraudulent accounting) and insider trading, as well as share manipulation and other fraudulent means.

As part of the process of criminal investigation, the Commission uses its own methods to identify and analyze relevant bank accounts or securities accounts that may be used in unfair trading. In addition, utilization of STRs helps to put the criminal cases in its proper light.

Chapter 5

Crackdown on Offences Related to Money Laundering

In order to take effective anti-money laundering (AML) measures, it is essential to understand the scale and modus operandi of money laundering.

In Japan, money laundering is criminalized as follows: the control of management of enterprises of legal persons and other entities through illicit proceeds (Article 9), the concealment of criminal proceeds etc. (Article 10) and the receipt of criminal proceeds etc. (Article 11) which are all stipulated in the Act on Punishment of Organized Crimes, and also the concealment of drug-related criminal proceeds etc. (Article 6) and the receipt of drug-related criminal proceeds etc. (Article 7) both stipulated in the Anti-Drug Special Provisions Law. They include typical money laundering activities such as transferring criminal proceeds to a certain place so that these proceeds would not be traceable 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.

In addition, penalties for the violation of supervision mechanisms issued by competent administrative authorities to specified business operators and penalties for the transfer or receiving of bank account passbooks are stipulated in the Act on Prevention of Transfer of Criminal Proceeds.

The AML achievements in Japan can be grasped to some extent by looking into the number of cleared cases related to money laundering. The amounts of criminal proceeds confiscated also reflects the effectiveness of the AML measures.

Section 1 Arrests made for the violation of the Act on Prevention of Transfer of Criminal Proceeds in 2012

The Act on Prevention of Transfer of Criminal Proceeds stipulates penalties to ensure the effectiveness of supervisory mechanisms put in place by the competent administrative authorities over specified business operators and penalties on the trade of savings passbooks, and the police is enhancing its efforts to crack down on such practices. Numerous money laundering crimes involve the illicit use of savings passbooks in the name of another party. The number of arrests made for the illicit transfer of savings passbooks in 2012 was 1,544 (see Table 5-1).

In addition, Postal Receiving Service Providers were arrested for violations of Rectification Orders for the first time since the enforcement of the Act on Prevention of Transfer of Criminal Proceeds.

Table 5-1 Number of punishments made under the Act on Prevention of Transfer of Criminal Proceeds

Category \ Year	2008	2009	2010	2011	2012
Transfer etc. of savings passbooks (business)	56	68	30	18	32
Transfer etc. of savings passbooks (non-business)	474	851	727	1,221	1,487
Soliciting	9	25	8	22	24
Violation of rectification orders	0	0	0	0	1
Total	539	944	765	1,261	1,544

Note: For actions committed before March 1, 2008, the Customer Identification Act applies.

Section 2 Cleared Cases of Money Laundering in 2012

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

1 Number of Cleared Cases

There were 238 cases cleared of money laundering under the Act on Punishment of Organized Crimes in 2012, consisting of 158 cases of concealment of criminal proceeds etc. (note) and 80 cases of receipt of criminal proceeds etc. (see Table 5-2)

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

Table 5-2 Number of Arrests Made for Money Laundering under the Act on Punishment of Organized Crimes

Category \ Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Management Control through Illicit Proceeds (Article 9)	0 (0)	0 (0)	0 (0)	1 (0)	0 (0)	1 (1)	0 (0)	1 (0)	1 (0)	0 (0)
Concealment of Criminal Proceeds etc. (Article 10)	45 (25)	50 (29)	65 (21)	91 (18)	137 (35)	134 (41)	172 (49)	139 (46)	150 (43)	158 (27)
Receipt of Criminal Proceeds etc. (Article 11)	11 (10)	15 (11)	42 (27)	42 (35)	40 (25)	38 (21)	54 (41)	65 (44)	92 (38)	80 (28)
Total	56 (35)	65 (40)	107 (48)	134 (53)	177 (60)	173 (63)	226 (90)	205 (90)	243 (81)	238 (55)

Note: Each number in brackets represents the number of cases conducted by Boryokudan gangsters.

Looking at the types of money laundering crimes under the Act on Punishment of Organized Crimes, the number of burglaries was the highest at 73, followed by 65 cases of fraud, 27 cases of illegal loaning in violation of the Moneylending Business Act and the Investment Deposit and Interest Rate Act and 20 cases of distribution of obscene material.

2 Modus Operandi of Money Laundering observed in Cleared Cases

(1) Examples of Concealment of Criminal Proceeds

Instances of concealment of criminal proceeds in 2012 consisted largely of cases in which offenders attempted to transfer funds to bank accounts under the name of other persons. This is a major form of infrastructure used in money-laundering crimes.

In addition, criminals use various methods to keep investigative authorities off the track, including selling stolen items using a false name, disguising facts with respect to acquiring criminal proceeds, and more.

[Case 1] Concealment of criminal proceeds (Large-Sum Fraud) stemming from transfer of corporate shares

A male company executive manufactured cosmetics and labeled ingredients without a cosmetics manufacturing licenses. He also sold cosmetic products without having conducted quality control checks, and through these actions repeatedly violated the Pharmaceutical Affairs Act. Despite being aware that if these violations were discovered, the cosmetics already distributed on the market would have to be recalled, causing extensive losses to the company, the offender knowingly concealed that information and sold the stock of the company he owned. In the sale of this stock to another corporation, he defrauded the buyer of a total of approximately ¥680 million, concealing ¥410 million by remitting the money to bank accounts in the names of his former subordinates. He thus violated the Act on Punishment of Organized Crimes (concealment of criminal proceeds etc.), which lead to his arrest. (Shimane, in January)

[Case 2] Arrangement of disposal of stolen goods with compensation and concealment of criminal proceeds related to stolen commemorative coins

An unemployed man was hired by an acquaintance to change a large number of stolen commemorative coins for cash, entering a false name on the bank's money exchange form and changing the coins for approximately ¥170,000 in cash. He was arrested for arrangement of disposal of stolen goods with compensation and for violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds etc.). (Saitama, in July)

[Case 3] Concealment of criminal proceeds etc. from grand theft

A few unemployed men stole ¥160 million in cash from the home of a company executive, concealing approximately ¥150 million of it under the ground in the mountain forests. They were arrested for violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds etc.). (Kumamoto, in September)

(2) Examples of Receipt of Criminal Proceeds etc.

In the cases on receipt of criminal proceeds which were cleared in 2012, there are cases where offenders received criminal proceeds derived from prostitution, theft, fraud, etc., which shows these criminal proceeds can be transferred to other individuals in diverse ways.

[Case 4] Receipt of stolen goods including stolen vehicles with compensation and receipt of criminal proceeds etc

An unemployed man asked an acquaintance to steal a vehicle, purchasing the vehicle and two license plates for ¥50,000. He was arrested for the receipt of stolen goods with compensation as well as the violation of the Act on Punishment of Organized Crimes (receipt of criminal proceeds).

(the Metropolitan Police Department, in February)

[Case 5] Receipt of criminal proceeds etc. related to violation of the Anti-Prostitution Act

A male former manager of a non-storefront type sex parlor received approximately ¥460,000 from the current proprietor, though he was aware that the funds had been obtained through prostitution, in return for mobile phones and other items for use in communication with customers. He was arrested for violating the Act on Punishment of Organized Crimes (receipt of criminal proceeds). (Shiga, in July)

3 Money Laundering Cases related to Boryokudan Gangsters.

There were a total of 55 cases cleared of money laundering related to Boryokudan gangsters (including Boryokudan members, associates, and other related parties) in 2012, consisting of 27 cases of concealment of criminal proceeds etc., and 28 cases of receipt of criminal proceeds etc. This number accounts for 23.1% of all cases cleared of money laundering under the Act on Punishment of Organized Crimes in 2012.

In each type of cases of money laundering related to Boryokudan gangsters, there were 17 cases of fraud, 10 cases of theft, 7 cases of illegal loaning, and 6 cases of prostitution offences. This indicates that Boryokudan gangsters commit money laundering by a variety of predicate offences.

(1) Examples of Means of Concealment of Criminal Proceeds etc. by Boryokudan gangsters

Looking at the cases of concealment of criminal proceeds etc. by Boryokudan gangsters in 2012, there were nine cases of fraud, six cases of illegal loaning, and four cases of theft.

Criminal proceeds obtained by fraud or illegal loaning are often concealed by remitting the funds to a bank account in another party's name.

[Case 6] Concealment of criminal proceeds etc. related to the unlicensed sale of pharmaceutical products in violation of the Pharmaceutical Affairs Act

A male member of the Rokudaime Yamaguchi-gumi gangster organization and others engaged in operations of an unauthorized pharmacy and the sale of pharmaceutical products using collect-on-delivery post. From a number of customers, a sum of approximately ¥20 million was collected and remitted to accounts in the name of other parties through the post office; arrests were therefore made for violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds etc.)

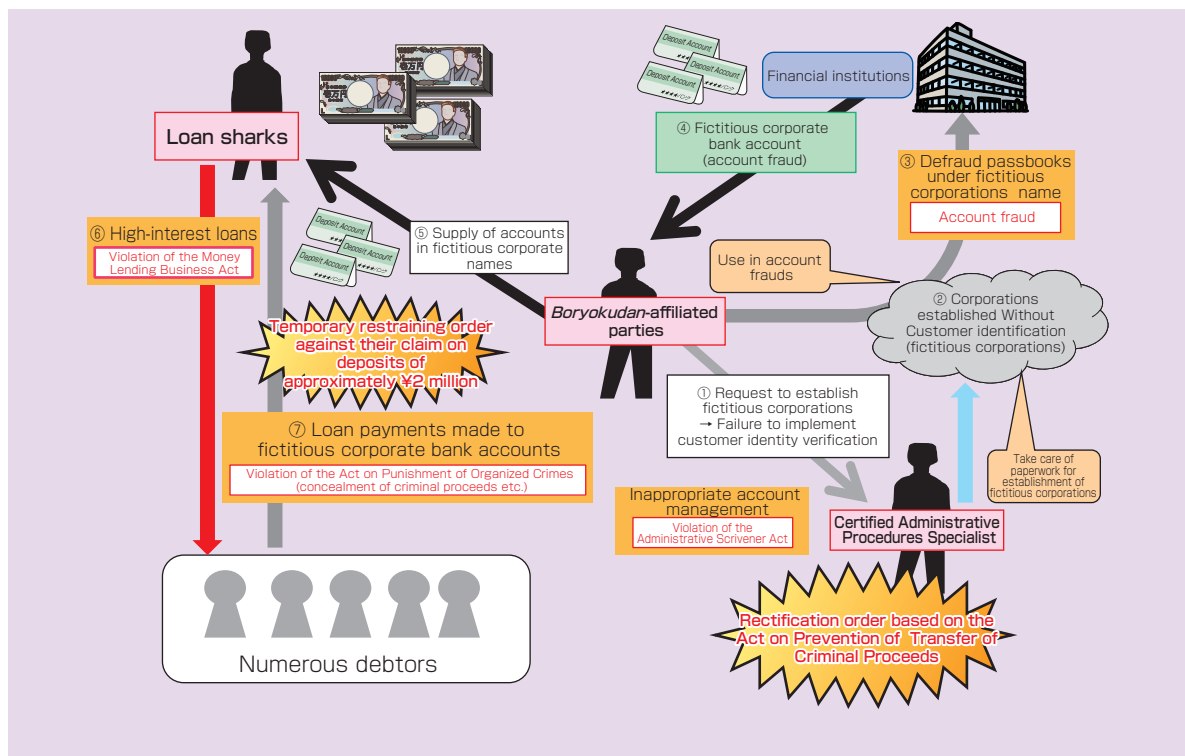
(Chiba, in March)

[Case 7] Concealment of criminal proceeds etc. in large-scale violations of the Moneylending Control Act

Men unregistered in the moneylending business lent illegal high-interest loans to the managers of small and medium sized firms in financial difficulty. A number of debtors made loan payments in the amount of approximately ¥370 million to bogus accounts made in the names of shell companies. The man was arrested for violations of the Act on Punishment of Organized Crimes (concealment of criminal proceeds etc.). A temporary restraining order was also issued on the sum of approximately ¥2 million remaining in the accounts noted above.

The accounts mentioned above are part of several hundred accounts established in the names of shell companies by the members of the Rokudaime Yamaguchi-gumi, the Kudokai and other Boryokudan for the purpose of loan payments. The relevant Boryokudan members were arrested for account fraud for having defrauded the banks of those accounts.

Furthermore, a certified administrative procedures specialist who were involved in setting up the corporations Boryokudan members misused for opening bank accounts was issued a Rectification Order from the Governor of Hiroshima after receiving an Opinion Statement from the NPSC / the National Police Agency for his failure to identify customers under the Act on Prevention of Transfer of Criminal Proceeds. The certified administrative procedures specialist was also arrested for the lack of preparation of account ledgers in violation of the Administrative Scrivener Act. (Fukuoka, in August)



[Case 8] Concealment of criminal proceeds of international large-sum fraud

A senior member of the Kyokuto-kai, a Nigerian man and others worked together to remit funds from a fraud case in the United States in the sum of approximately ¥24 million to a bank account in Japan. They misled the bank that the funds were paid for products. Subsequently, when completing the withdrawal procedures, they submitted transaction sheets with the false statement that the funds were paid for products, and consequently gave a false appearance that the funds were fairly obtained in business. They were arrested for violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds etc.). (Niigata and the Metropolitan Police Department, in December)

(2) Examples of Receipt of Criminal Proceeds etc. related to Boryokudan Gangsters

Cleared cases of receipt of criminal proceeds etc. by Boryokudan gangsters in 2012 consisted of 8 cases of fraud and 6 cases each of prostitution and theft. Cases of receipt of criminal proceeds etc. included protection money and contributions to the gangster organizations, providing an indication of how Boryokudan gangsters obtain criminal proceeds through the power or force of the organization.

[Case 9] Receipt of criminal proceeds etc. related to violations of the Anti-Prostitution Act

A senior member of the Rokudaime Yamaguchi-gumi received approximately ¥38,000 in funds from a dispatch-system prostitution club operated by a subordinate. The man was arrested for violation of the Act on Punishment of Organized Crimes (Receipt of criminal proceeds etc.). (Osaka, in March)

4 Money Laundering conducted by Foreign Visitors to Japan

In cleared cases of money laundering under the Act on Punishment of Organized Crimes in 2012, there were 17 cases related to foreign visitors to Japan, representing 7.1% of all cases.

Looking at these 17 cases, there were 12 cases of concealment of criminal proceeds etc. and 5 cases of receipt of criminal proceeds etc.. Looking at the types of cases of money laundering, there were 5 cases each involving underground bank crimes and theft, 4 cases of fraud, and 2 cases of violations of the Trademark Act. It can be seen that criminals of foreign nationalities operating in Japan use various methods to carry out money laundering, including the use of bank accounts in Japan made in the names of other parties.

[Case 10] Concealment of criminal proceeds made on the sale of counterfeited branded products

A Korean man and others were arrested for the sales of counterfeited branded products via cash-on-delivery mail, and on making customers remit to accounts in the names of other parties through the post office in the amount of approximately ¥19,000. They were arrested for violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds etc.). (Osaka, in May)

[Case 11] Concealment of criminal proceeds etc, on a kidnapping-for-ransom case that took place overseas

The sum of approximately ¥180 million in ransom money in a kidnapping-for-ransom case in the Netherlands was remitted to a bank account in Japan. A Chinese man attempted to prove that the money was earned legally by giving false information to a bank clerk that the funds were used as a deposit on business dealings and presenting a fraudulent business contract. The man was arrested on violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds etc.). (Kanagawa, in November)

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

The total number of cleared cases of money laundering under the Anti-Drug Special

Provisions Law in 2012 was 11 (see Table 5-3).

In some cases, money laundering is artfully committed for funds acquired through drug offences such as smuggling of stimulants, in which purchasers' payments are deposited into a bank account under the name of another party (Case 12)

Note: Drug criminal proceeds etc. are comprised of drug criminal proceeds and proceeds stemming from drug offense proceeds, or a mix of said proceeds and other funds. (Article 2, Paragraph 3 to 5 of the Anti-Drug Special Provisions Law).

Table 5-3 Number of arrests made for money laundering under the Anti-Drug Special Provisions Law

Category \ Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Concealment of drug-related criminal proceeds etc. (Article 6)	8 (2)	5 (3)	3 (2)	5 (3)	5 (4)	10 (4)	5 (1)	8 (4)	8 (3)	8 (2)
Receipt of drug-related criminal proceeds etc. (Article 7)	2 (2)	0 (0)	2 (2)	5 (2)	2 (1)	2 (1)	5 (3)	1 (1)	0 (0)	3 (2)
Total	10 (4)	5 (3)	5 (4)	10 (5)	7 (5)	12 (5)	10 (4)	9 (5)	8 (3)	11 (4)

Note: Each number in brackets represents the number of cases conducted by Boryokudan gangsters.

[Case 12] Concealment of drug criminal proceeds from the illicit sale of stimulants by a female drug trafficker

An investigation of stimulant end abusers revealed a female supplier, leading to a widespread search of affiliated offenders and the arrest of the woman on violations of the Stimulants Control Act (possession). Upon examination of a deposit passbook confiscated during the search, the female trafficker had utilized a bank account in another party's name for trafficking purpose. Remittances of approximately ¥1.4 million from customers purchasing stimulants had been made to this account. She also misrepresented herself as having no income, thereby unfairly receiving public assistance. She was arrested for violations of the Stimulants Control Act (concealment of drug criminal proceeds etc.) and for fraud charges. (Ishikawa in February)

Section 3 Temporary Restraining Order for Confiscation of Criminal Proceeds before Institution of Prosecution in 2012

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 use the system of "Temporary Restraining Order for Confiscation before Institution of Prosecution" (hereafter referred as Temporary Restraining Order) stipulated in the Act on Punishment of Organized Crimes and the Anti-Drug Special Provisions Law in order to confiscate criminal proceeds effectively.

Paragraph 1 Temporary Restraining Order under the Act on Punishment of Organized Crimes

The number of "Temporary Restraining Orders" issued under the Act on Punishment of Organized Crimes in 2012 (on the request of judicial police officers) was 148, the largest number since the enforcement of the Act in 2000.

A breakdown of this figure by type of offence includes 38 cases of violation of the Adult Entertainment Business Act, 26 cases of Habitual Gambling and Running a Gambling Place for the Purpose of Profit, 16 cases of prostitution, 15 cases of distribution of obscene material, and 9 cases of loan-sharking offences (see Table 5-4).

Table 5-4 Numbers of Temporary Restraining Orders Issued and Amounts Confiscated Before Prosecution under the Act on Punishment of Organized Crimes

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
7 (3)	7 (5)	8 (0)	9 (3)	21 (7)	44 (21)	54 (23)	70 (36)	101 (30)	148 (39)

Note 1: Only the cases requested by judicial police officers.

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

Year	Total amount of credit	Others
2003	¥12,809,068	Land 6,600㎡
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 currency US\$750
2010	¥160,597,150	Land 605.95㎡ Building 1 Passenger vehicles 2 Necklace 1
2011	¥134,764,985	
2012	¥3,380,337,707	Light vehicle 1 Passenger vehicle 1 Condominium 1 unit

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 Punishment of Organized Crimes in December 2006, and that the provision of the Article 13, Paragraph 3 of the Act (confiscation of crime victim property) has been applied.

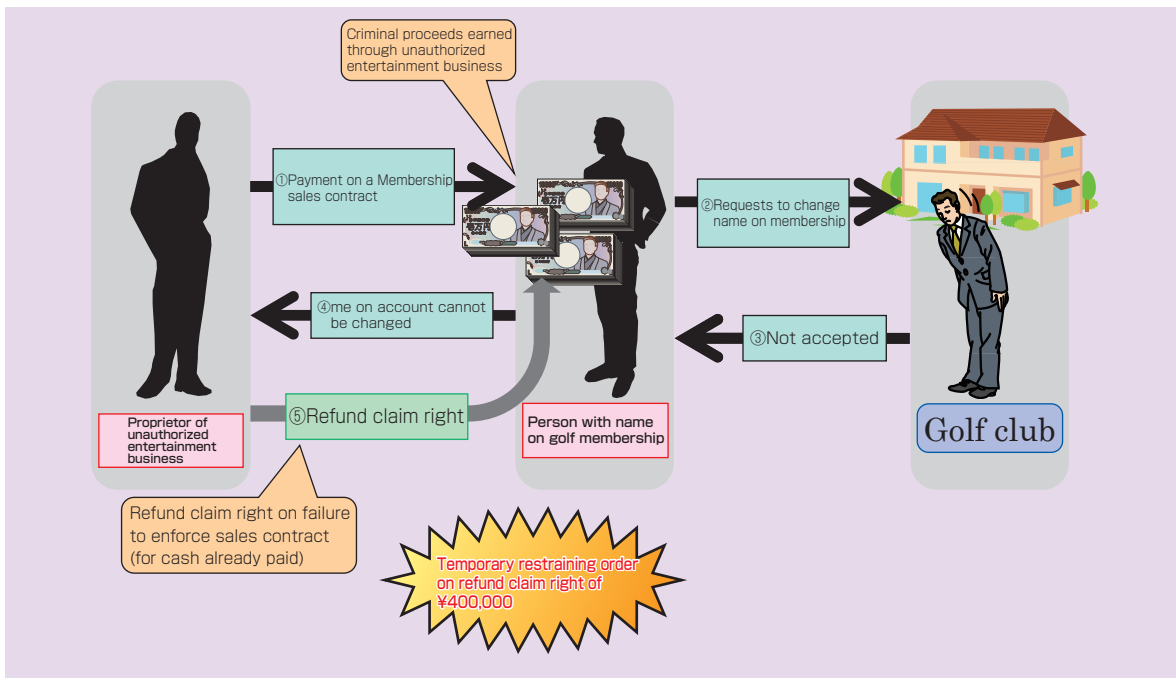
In July 2011, unauthorized adult entertainment business and unlicensed banking business were added to the predicate offences and the range of assets subject to confiscation increased. Therefore the opportunities to apply the procedures for "Temporary Restraining Order" specified in the Act are expected to increase in the future. The system of "Temporary Restraining Orders" under the Act on Punishment of Organized Crimes 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.

The police should actively make use of "Temporary Restraining Orders" 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."

"Temporary Restraining Orders" issued in 2012 include numerous orders against unauthorized entertainment business. Orders were also issued for pecuniary claims for the following, which under the Act on Punishment of Organized Crime are subject to confiscation: refund claim rights, claims on deposits, and claims on advance payment on behalf of a third party.

[Case 13] Temporary restraining order against the right to demand restitution on default of golf club member sales contract

A man operating an unlicensed entertainment business sought to purchase a golf club membership from an acquaintance with proceeds obtained from an unlicensed entertainment business. Since the man was arrested, the golf club did not approve the transfer of membership, defaulting on the sales contract. The offender was therefore entitled to a refund. A temporary restraining order was placed not only against the confiscated cash of approximately ¥75,000 and credit of approximately ¥45,000 but also against the offender's right to demand restitution of approximately ¥400,000 on default of sales contract. (Yamagata in February)



[Case 14] Temporary restraining order against real estate fraudulently obtained in violation of articles regarding the exclusion of organized crime syndicates

A man belonging to the organization affiliated with the Rokudaime Yamaguchi-gumi hid the fact that he was a Boryokudan member from a real estate brokerage whose policy was to reject contract of sale with anti-social forces under articles regarding the exclusion of organized crime syndicates. He then proceeded to purchase a condominium. He was issued a temporary restraining order against the condominium as fraudulently obtained property. (Kyoto, in June)

[Case 15] Temporary restraining order against compensation gained in violation of the Lawyers Act (agency of legal business)

Despite the fact that they were not lawyers, nor their office a law office, female executives of a certain company and others acted as an agency, i.e. introducing a judicial scrivener office, regarding arbitration of debt adjustment and excess payment reimbursement, for compensation. Because the company earned compensation from the judicial scrivener's office as an introduction fee, a temporary restraining order was placed against these earnings in the sum of ¥33 million.

(the Metropolitan Police Department, in June)

[Case 16] Temporary restraining order against advance payment on behalf of a third party remitted as proceeds from an unlicensed entertainment business

A female proprietor of an unauthorized lounge bar formed a contract with a credit card company. Some of her customers paid by credit card. A temporary restraining order was issued against confiscated deposit claims of approximately ¥320,000, and against advance payment on behalf of a third party in the amount of ¥48,000, which was to be remitted from the credit card company. (Okayama, in July)

Paragraph 2 Temporary Restraining Order under the Anti-Drug Special Provisions Law

The number of Temporary Restraining Orders issued under the Anti-Drug Special Provisions Law in 2012 was 16 (see Table 5-5).

For example, a Temporary Restraining Order was issued against proceeds (cash and claim on deposits) obtained from trafficking of stimulant drugs which were sold illegally via door-to-door delivery (Case 17).

Table 5-5 Number of Temporary Restraining Orders Issued and Amounts Confiscated Before Prosecution under the Anti-Drug Special Provisions Law

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
8 (2)	5 (2)	8 (5)	3 (2)	4 (3)	7 (5)	8 (5)	13 (7)	14 (4)	16 (8)

Note 1: Only the cases requested by judicial police officers.

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

Year4	Total amount of credit	Others
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	Traveller's cheque US\$11,500 Necklace 2 Wristwatches 2 Passenger vehicle 1
2011	¥11,678,611	Foreign currency US\$5,000 Passenger vehicles 3 Key 1
2012	¥30,026,428	

[Case 17] Temporary restraining order against drug offence criminal proceeds obtained in the trafficking of stimulants by a senior Boryokudan member affiliated with the Inagawakai and others

An end abuser provided information on trade of stimulants involving the use of delivery services. This information led to search a drug warehouse, where large amounts of stimulants were found and confiscated. The offenders were arrested on violations of the Stimulants Control Act (possession for profit, etc.). A temporary restraining order was issued against the offenders on drug criminal proceeds in the amount of approximately ¥2.5 million attained in the trafficking of stimulants and approximately ¥580,000 in deposit claims. (Chiba and Ehime, in February)

Section 4 Application of Provisions of Confiscation and Collection of Equivalent Value in 2012

Paragraph 1 Application of Provisions of Confiscation and Collection of Equivalent Value under the Act on Punishment of Organized Crimes

The details of application of Provisions of Confiscation and Collection of Equivalent Value under the Act on Punishment of Organized Crimes in general court procedures (first trials) are shown in the following Table 5-6.

Table 5-6 Statistics of the application of Provisions of Confiscation and Collection of Equivalent Value under the Act on Punishment of Organized Crimes in general first trials

Year	Confiscation		Collection		Total	
	Persons	Amount	Persons	Amount	Persons	Amount
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	3,414,672	227	3,520,446
2010	54	81,136	101	1,445,143	155	1,526,280
2011	93	60,899	93	819,683	186	880,582

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 duplicate amount.

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

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

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 5-7.

Table 5-7 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
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
2010	46	27,660	328	1,260,916	374	1,288,576
2011	69	21,277	273	850,882	342	872,160

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 duplicate amount.

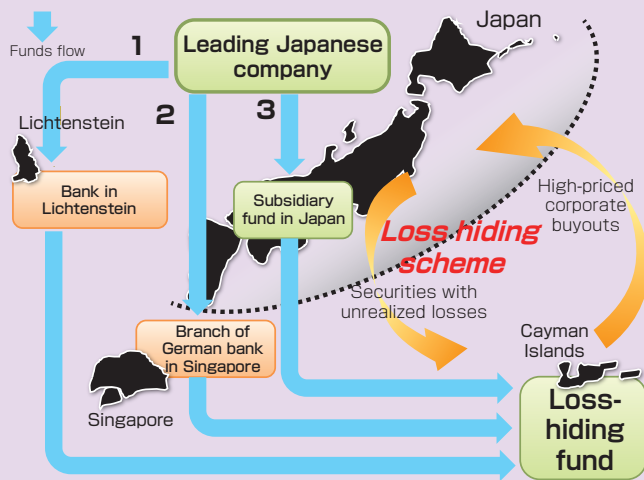
Note 4: Foreign currencies were exchanged into Japanese yen at the exchange rate of the date of the ruling.

Section 5 Concealment of Cross-Border Capital Movements

By moving funds between bank accounts of several different financial institutions, offenders create the appearance that capital obtained by illicit means was obtained fairly. It is common practice for criminals to take steps across borders to conceal the true origin of funds and the true owner.

[Case 18] Loss hiding scheme by a leading domestic company

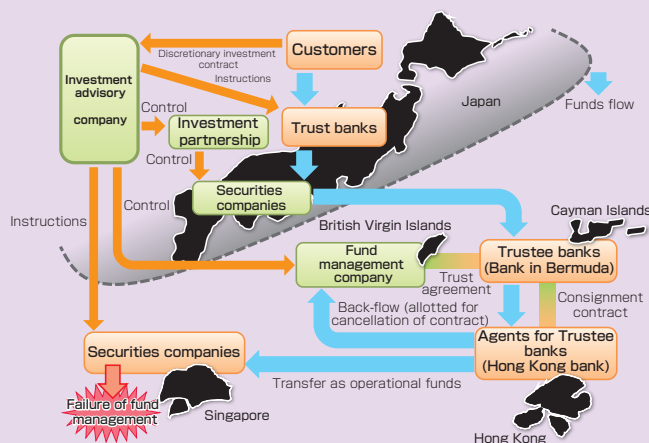
Management of a leading domestic company hid huge losses incurred in the company's management of securities. To avoid bankruptcy and responsibility on the part of management, the company processed loss-bearing financial instruments off the books overseas as fictitious goodwill. The purpose was to hide these huge losses. Arrests were made on violations of the Financial Instruments and Exchange Act.



To transfer the securities with unrealized losses to a loss-hiding fund overseas, the company utilized several different routes to transfer the funds overseas. With the funds collected in this manner, the company created a loss-hiding scheme where the securities with unrealized losses were purchased and the loss transferred to a loss-hiding fund. In the end, the losses were concealed by high-priced corporate buyouts. (the Metropolitan Police Department in February)

[Case 19] Fraud by an Investment Advisory Company

The president and other executives of an investment advisory company managing funds under discretionary investment contracts with several corporate retirement funds hid various losses incurred in operation. These executives were arrested on fraud charges, specifically for defrauding new customers into believing that their business operations were sound and generating funds thereby.



The company established trust bank contracts between fund management companies under their umbrella organization and oversees banks, creating a structure where the funds would be difficult for Japanese authorities to trace by sending funds generated through this scheme overseas, and further by moving the funds to highly secret bank accounts overseas. This scheme hid the firm's management issues completely.

(the Metropolitan Police Department in June)

Chapter 6

Promotion of International Cooperation

Economy and financial services are 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 financing 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 modus operandi of money laundering and terrorist financing, to take necessary and sufficient measures all together with a view to detecting money laundering and terrorist financing by tracing accurately the transfer of criminal proceeds across borders, and to preventing 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.

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, 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.

Section 1 Activities of International Institutions

Paragraph 1 FATF

1 FATF

FATF is an intergovernmental body established following the "Economic Declaration" of the 1989 Archa Summit Communique 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 2012.

2 Activities

(1) Main Activities

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 modus operandi of money laundering and terrorist financing

(2) FATF Recommendations

a) FATF 40 Recommendations

In 1990, FATF devised 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.

In June 2003, FATF revised its recommendations to counter increasing sophistication and complexity of money laundering.

The “40 Recommendations” contained following additional elements (see Figure 6-1).

- 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 professions)
- National and international cooperation among FIUs, supervisory authorities, law enforcement authorities and other governmental organizations handling issues related to money laundering

b) FATF 9 Special Recommendations

In October 2001, a month after the September 11th US terrorist attacks, FATF held an Emergency Session. The agreement of the session was reflected in “the Special Recommendations.” 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 (See Table 6-1):

- 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.

c) The new “40 Recommendations”

FATF had considered revision of its 40 Recommendations and 9 Special Recommendations in preparation for its fourth Mutual Evaluation, and integrated these two Recommendations into its new “40 Recommendations” in February 2012.

The major points which are newly included to the new “40 Recommendations” are summarized as follows (see Table 6-2).

- Enhancing a risk-based approach
- Boosting transparency of corporations, entrustment, and wire transfer systems
- Enhancing capacity of the relevant administrative authorities and bolstering a system of international cooperation on countermeasures against money laundering and terrorist financing

(3) Mutual Evaluation

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 investigation of money laundering crime.

3 Mutual Evaluation of Japan

In addition to Mutual Evaluations conducted by FATF in 1994 and 1998, more recently a third Review was implemented over the latter half of 2007 through the latter half of 2008. JAFIC worked together with related government agencies on the Reviews.

(1) Implementation of the Third FATF Mutual Evaluation of Japan

The main process and procedure of the FATF Mutual Evaluation of assessed countries are as follows:

1. Response to the Mutual Evaluation Questionnaire (MEQ),
2. On-site visit to directly confirm the actual status of countries subject to assessment 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 Evaluation of Japan was concluded.

(2) Outline of the Mutual Evaluation Results

For each of 40 Recommendations and 9 Special 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 Mutual Evaluation of Japan are shown in Table 6-1, 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 human resource 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 verification 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) (see Figure 6-1).

Since the results of every evaluation are to be published, the results of the third round of Mutual 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/international_policy/convention/fatf/fatfhoudou_201030.htm).

(3) Follow-up of the Mutual Evaluation Results

a) Follow-up Procedures

In the context of the procedures regulated by FATF, those countries subject to assessment, which have received at least one PC or NC in the core recommendations (Recommendations 1, 5, 10, and 13 and Special Recommendations II and IV) are subject to follow-up, and they must periodically report the progress of improvement and overall statistics at Plenary Meetings.

And in the case where the Plenary agrees that the assessed countries have implemented 16 Recommendations (in addition to 6 core Recommendations, Recommendation 3, 4, 23, 26, 35, 36, 40 and Special Recommendation I, III, V) at a level essentially equivalent to a C or LC, the countries will be removed from the follow-up process. Countries subject to assessment are encouraged to make necessary improvements and to seek removal from the follow-up process within three years after the adoption of Mutual Evaluation.

b) Report on Improvement

Regular Follow up procedures apply to Japan under Recommendation 5 rated NC and Special Recommendation II rated PC. Since the Mutual Evaluation, Japan has been actively making efforts to remedy the deficiencies identified in the Mutual Evaluation by, for instance, holding “the Related Ministry Liaison Conference regarding Implementation of FATF Recommendations”.

Especially with regard to customer due diligence which was rated NC, the Act to Partially Amend the Act on Prevention of Transfer of Criminal Proceeds was promulgated on April 28, 2011, and the legislative order pertaining to the law promulgated on March 26, 2012, enabling the verification of the purpose of transactions and beneficial owner. Based mainly on the above, improvement reports were made at FATF Plenary Meetings on the following four occasions: October 2010, October 2011, June 2012, and October 2012. A report will also be released on Japan’s progress in the areas pointed out.

4 Participation of JAFIC

As one of the founding members of FATF, Japan has been a very active contributor to its work since its establishment in 1989. Japan had participated in tri-annual Plenary Meetings

and working groups which conduct analysis of money laundering typologies, and chaired the plenary between July 1998 and June 1999. Even after the functions of FIU were transferred to JAFIC, JAFIC has continued to actively participate in the discussion for new frameworks of AML/CTF measures and send staff members to the Plenary and working group meetings held every year.

FATF Plenary Meeting



Table 6-1 Overview of the “40 Recommendations” and “9 Special Recommendations,” and Results of the Third FATF Mutual Evaluation of Japan

Recommendation	Outline of Recommendation	Rating	Recommendation	Outline of Recommendation	Rating
40 Recommendations			25	Guideline & feedback	LC
1	Money laundering offence	LC	26	FIU	LC
2	Money laundering offence - mental element and corporate liability	LC	27	Investigation for money laundering and terrorist financing	LC
3	Confiscation and provisional measures	LC	28	Power of competent authorities	C
4	Secrecy laws consistent with the Recommendations	C	29	Supervisory authorities	LC
5	Customer due diligence (financial institutions)	NC	30	Resources, integrity and training	LC
6	Individuals who are or have been entrusted with prominent public function in a foreign country	NC	31	National cooperation	LC
			32	Statistics	LC
7	Correspondent banking	NC	33	Legal person-beneficial owners	NC
8	Misuse of new technologies & non face-to-face business	PC	34	Legal arrangements (trust) - beneficial owners	NC
9	Rely on third parties and introducers for Customer due diligence	N/A	35	Convention	PC
10	Obligation to maintain records of customer identification and transaction record	LC	36	Mutual legal assistance	PC
11	Obligation to pay special attention for unusual transaction	PC	37	Dual criminality	PC
12	Customer due diligence by DNFBP (designated non-financial businesses and professions)	NC	38	Mutual legal assistance on confiscation and freezing	LC
13	Suspicious Transaction Report by financial institutions (STRs)	LC	39	Extradition	PC
14	Obligation to protect reporter	LC	40	International cooperation (information exchange with foreign counterparts)	LC
15	Obligation to maintain internal controls	NC	9 Special Recommendations		
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 (NPO)	PC
24	SSupervisory obligation for DNFBP	PC	IX	Cross border declaration & disclosure (Cash courier)	NC

Note: Evaluation levels are as follows:

C: Compliant, LC: Largely Compliant, PC: Partially Compliance, NC: Non-compliant, N/A: Not applicable,

Table 6-2 Overview of the New “40 Recommendations”

New Recommendation	Old Recommendation	Outline of Recommendation	New Recommendation	Old Recommendation	Outline of Recommendation
1	–	Assessing risks & applying a risk-based approach	21	14	Tipping-off and confidentiality
2	31	National cooperation and coordination	22	12	DNFBPs: Customer due diligence
3	1 2	Money laundering offence	23	16	DNFBPs: Other measures
4	3	Confiscation and provisional measures	24	33	Transparency and beneficial ownership of legal persons
5	II	Terrorist financing offence	25	34	Transparency and beneficial ownership of legal arrangements
6	III	Targeted financial sanctions related to terrorism & terrorist financing	26	23	Regulation and supervision of financial institutions
7	–	Targeted financial sanctions related to proliferation	27	29	Powers of supervisors
8	VIII	Non profit organisations (NPO)	28	24	Regulation and supervision of DNFBPs
9	4	Financial institution secrecy laws	29	26	Financial intelligence units
10	5	Customer due diligence	30	27	Responsibilities of law enforcement and investigative authorities
11	10	Record keeping	31	28	Powers of law enforcement and investigative authorities
12	6	Politically exposed persons	32	IX	Cash couriers
13	7	Correspondent banking	33	32	Statistics
14	VI	Money or value transfer services	34	25	Guidance and feedback
15	8	New technologies	35	17	Sanctions
16	VII	Wire transfers	36	35 I	International instruments
17	9	Reliance on third parties	37	36 V	Mutual legal assistance
18	15 22	Internal controls and foreign branches and subsidiaries	38	38	Mutual legal assistance: freezing and confiscation
19	21	Higher-risk countries	39	39	Extradition
20	13 IV	Reporting of suspicious transactions	40	40	International cooperation (information exchange with foreign counterparts)

Note: “New Recommendation” refers to the New “40 Recommendations,” while “Old Recommendations” indicates the numbers of the old “40 Recommendations” and the “9 Special Recommendations.” The Arabian numbers under the “Old Recommendations” refer to the “40 Recommendations,” while the Greek numbers are the Recommendation numbers for the “9 Special Recommendations.” “-” indicates a new Recommendations.

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 2012, the APG consists of 41 jurisdictions, including Japan.

2 Activities

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

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 Plenary Meeting and second typology meeting were both held in Tokyo in March 1998 and March 1999 respectively and Japan took the role of cochair 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 Plenary

Meeting and the typology meetings 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.

APG Typology Meeting(Vietnam)



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 expertise 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 131 jurisdictions as of the end of December 2012.

2 Activities 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 twice a year.

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), 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) develops training methods 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

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 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 Plenary Meeting held in Bermuda in May 2007.

After joining the Egmont Group, JAFIC has sent its members to both the annual meetings and working groups to participate 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 JAFIO and accepted the role of sponsor FIU for Pakistan FIU (in co-sponsorship with the U.S. FIU) at the request of the Egmont Group in 2011.

Egmont Group Meeting (Russia)



Section 2 Progress of the International Cooperation in 2012

Paragraph 1 Participation in the Activities of International Organizations

Table 6-3 presents that JAFIC has been actively participating in the activities of international organizations by sending its members to each occasion.

Table 6-3 Participation in the Activities of International Organizations in 2012

	Month	Name of meeting	Location
FATF	January	Special Meeting	Paris (France)
	February	Plenary Meeting	Paris (France)
	June	Plenary Meeting	Rome (Italy)
	September	Working Group	Paris (France)
	October	Plenary Meeting	Paris (France)
APG	July	Annual Meeting	Brisbane (Australia)
	November	Typology Meeting	Hanoi (Vietnam)
	December	Workshop	Seoul (Korea)
Egmont Group	January	Working Group	Manila (Philippines)
		Annual Meeting	St. Petersburg (Russia)

Paragraph 2 Information Exchange with Foreign FIUs

1 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 13 (pre-revision Article 12) of the Act on Prevention of Transfer of Criminal Proceeds stipulates that JAFIC may disseminate information on suspicious transactions to foreign FIUs on condition that there is a framework governing the restrictions on the use of the disseminated information in foreign countries. In response, JAFIC has established the necessary framework by exchanging a document specifying the restrictions on the use

Establishment of Framework with Aruba FIU



of provided information and other matters with foreign FIUs.

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 2012, JAFIC has set the frameworks for information exchange with the FIUs of 46 jurisdictions. (see Table 6-4).

Table 6-4 [Countries and regions with which JAFIC has set the Frameworks for Information Exchange between FIUs]

Year of Agreement	Countries and Regions
2007	Hong Kong, Thailand, Malaysia, Belgium, Australia, U.S., Singapore, Canada, Indonesia, U.K., Brazil, Philippines
2008	Switzerland, Italy, Portugal, Korea, Romania
2009	Paraguay, France, Qatar
2010	Turkey, Mexico, Luxembourg, Chile, Finland, India
2011	Nigeria, China, Cambodia, Macau, Cyprus, Argentina, Spain, San Marino
2012	Montenegro, Netherlands, Germany, Cayman Islands, Czech, Mongolia, Aruba, Colombia, Lebanon, Sweden, Peru, Armenia

2 Status of Information Sharing

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

JAFIC has strengthened the systems of analysis and as a result, there is greater sharing of information with foreign FIUs.

In 2012 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 100 requests to relevant foreign FIUs for information such as the flow of funds transferred out of Japan, the source of remittance from abroad etc. (see Table 6-5).

In addition to these requests for information, FIUs in various countries are voluntarily ex-

Table 6-5 The number of information exchange with foreign FIUs

Category \ Year	2008	2009	2010	2011	2012
Number of requests for information from foreign FIUs to JAFIC	60	47	54	63	53
Number of requests for information from JAFIC to foreign FIUs	30	51	78	136	100
Number of spontaneous disclosure from foreign FIUs to JAFIC	42	18	23	18	29
Number of spontaneous disclosure from JAFIC to foreign FIUs	3	6	7	16	9

changing information which are considered beneficial in preventing money laundering and terrorist financing.

The number of cases where JAFIC exchanged information with foreign FIUs in 2012 totaled 191.

In order to facilitate exchange of information, JAFIC has carried out various activities such as learning how foreign FIUs analyze information and how foreign investigative authorities utilize the funds information etc. JAFIC has also conducted discussions, 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 terrorist financing, as well as FIUs of other jurisdictions where there still is no framework for information exchange.

3 Discussions

The following presents the discussions held with foreign FIUs and international organizations in 2012:

February	Discussion with the United Arab Emirates FIU(Abu Dhabi)
March	Information sharing session with China FIU (Beijing) Information sharing session with the U.S. FIU (Washington, D.C.) Discussion with Bermuda FIU (Hamilton) Information sharing session with the Czech Republic FIU (Prague) Discussion with Liechtenstein FIU (Vaduz)
June	Information sharing session with the Egmont Group Secretariat (Toronto)
September	Information sharing session with U.S. FIU (Tokyo)
October	Discussion with Malta FIU (Valetta) Information sharing session with Armenia FIU (Yerevan) Discussion with Israel FIU (Tel Aviv)
November	Discussion with British Virgin Islands FIU (Road Town) Discussion with Bolivia FIU (La Paz) Discussion with Kazakhstan (Astana)

Discussion with Liechtenstein FIU



Discussion with British Virgin Islands FIU



