

# Introduction

Since its establishment in 2007, the Act on Prevention of Transfer of Criminal Proceeds has been amended multiple times and its function has been enhanced, so that it can effectively address the ever-changing international and domestic situation surrounding money laundering and terrorism financing (ML/FT). Thanks to the efforts of financial institutions and other specified business operators to enhance their vigilance against unlawful fund transfers, the number of suspicious transaction reports (STRs) filed at competent authorities reached a record high of 410,000 in 2018. The STRs are also effectively used by law enforcement authorities (LEAs); the number of STR analyses resulting in arrests also marked a record high in 2018, registering a figure over 1,000 for the fifth consecutive year.

In recent society where economy and financial services are globalized to a remarkable extent, effective AML/CFT (Anti-Money Laundering and Countering the Financing of Terrorism) measures cannot be implemented without international coordination. The member states of the Financial Action Task Force (FATF), an intergovernmental organization to combat money laundering, are implementing AML/CFT measures in a coordinated manner based on the FATF Recommendations. In accordance with the FATF Recommendations, Japan promulgated the Act Partially Amending the Act on Prevention of Transfer of Criminal Proceeds in July 2018, in order to add casinos to the scope of specified business operators, which are subject to the obligation of suspicious transaction reporting. (The amended Act is due to come into effect within three years from the date of promulgation.)

In order to promote AML/CFT measures effectively, enforcement efforts by domestic LEAs alone are not enough; it is also necessary to actively promote public-private cooperation and international coordination. In order to achieve this goal, we have to gain understanding and support from specified business operators and the general public. We hope that this Annual Report will help in cultivating understanding and support for AML/CFT measures among not only those who are directly involved in this field, but also the general public, while also promoting the prevention of transfers of criminal proceeds and thereby contributing to the public safety and security and sound economic development.

# Legend

## 1 Abbreviations for laws

Abbreviations for laws are as follows.

[Abbreviation]	[Law]
Anti-Drug Special Provisions Law	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 (Act No. 94 of 1991)
Act on Punishment of Organized Crimes	Act on Punishment of Organized Crimes and Control of Crime Proceeds (Act No. 136 of 1999)
Act on Punishment of Financing of Offences of Public Intimidation	Act on Punishment of the Financing of Criminal Activities for the Purpose of Intimidation of the General Public and of Governments (Act No. 67 of 2002)
Customer Identification Act	Act on Customer Identification by Financial Institutions, etc. (Act No. 32 of 2002)
Amended Customer Identification Act	Act on Confirmation of Customers Identification by Financial Institution, etc. and Prevention of Unauthorized Use of Deposit Account, etc. (Act No. 32 of 2002)
International Terrorist Asset-Freezing Act	Act on Special Measures Concerning the Asset-Freezing of International Terrorists Conducted by Japan Based on United Nations Security Council Resolution 1267 (Act No. 124 of 2014)
Immigration Control Act	Immigration Control and Refugee Recognition Act (Cabinet Order No. 319, 1951)
Investment Deposit and Interest Rate Act	Act Regulating the Receipt of Contributions, the Receipt of Deposits, and Interest Rates (Act No. 195 of June 23, 1954)
Amusement Business Act	Act on Control and Improvement of Amusement Business, etc. (Act No. 122 of 1948)
Worker Dispatching Act	Act for Securing the Proper Operation of Worker Dispatching Undertakings and Improved Working Conditions for Dispatched Workers (Act No. 88 of 1985)
Violation of Act on Prevention of Misuse of Mobile Phones	Act on Identification, etc. by Mobile Voice Communications Carriers of their Subscribers, etc. and for Prevention of Improper Use of Mobile Voice Communications Services (Act No. 31 of 2005)

## 2 Abbreviations for conventions, etc.

Abbreviations for conventions, etc. are as follows.

[Abbreviation]	[Conventions, etc.]
UN New Narcotics Convention	United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (Convention No. 6 of 1992)
G8 Action Plan Principles	G8 Action Plan Principles to prevent the misuse of companies and legal arrangements (Agreed at G8 Summit in Lough Erne in June 2013)
Japan Action Plan	Japan Action Plan to prevent the misuse of companies and legal arrangements (Announced in June 2013)

## 3 Others

In this Annual Report, the following terms include corporations, etc. as follows.

[Terms]

Lawyer: Registered foreign lawyers and legal professional corporations are included.

Judicial scrivener: Judicial scrivener corporations are included.

Certified administrative procedures legal specialist: Certified administrative procedures legal specialist corporations are included

Certified public accountant: Foreign certified public accountants and audit corporations are included.

Certified public tax accountant: Certified public tax accountant corporations are included.

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Note 1: Unless otherwise noted, statistics and other numbers shown, including in charts and figures, are taken from National Police Agency surveys.

Note 2: In this Report, the number of cases is counted by that of cases reported by prefectural police, so it is different from that of arrest cases.

# Chapter 1

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

Money laundering refers to attempts to evade the discovery of money obtained through illicit means, especially criminal proceeds, and arrests by investigative authorities by concealing the sources or beneficial owners of the money. If effective measures are not taken against money laundering, criminal proceeds continue to be utilized for further crimes or to become rife with organized crimes or terrorism. Money laundering also could pose serious threats to sound economic activities. Therefore, in order to ensure the safety and peace of national life and the sound development of economic activities, it is critical to take positive steps for AML/CFT.

The international community has continued to develop AML/CFT regimes in an effort to prevent and eradicate money laundering and terrorist financing (ML/TF), according to which Japan has also been working on it in cooperation with the international community.

The various AML/CFT regimes put in place and the follow-up activities we have made for their effective implementation as described in this report could, therefore, illustrate our dedication to the global challenge in fighting against ML/TF and robust domestic efforts.

### Section 1 History of International AML/CFT Efforts

#### 1. Anti-Money Laundering as a Countermeasure against Narcotic Drugs

Through the 1980s, the global spread of narcotics abuse was taken as a crisis in the international community, prompting a variety of initiatives to address the issue. Especially in fighting against illegal transactions by transnational drug-trafficking organizations, 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 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.

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 took initiative 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 laun-

dering 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 as a Countermeasure 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 the United Nations took initiative to establish an international convention against international organized crimes. At the Halifax Summit in June 1995, it was pointed out that effective measures to prevent the concealing of proceeds not only from drug-trafficking but also from any other 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, besides drug crimes, the scope of predicate offences for money laundering be extended to include other serious crimes.

Further, at the Birmingham Summit in May 1998, it was agreed by the participating countries to create an FIU (Financial Intelligence Unit) in each country, which are dedicated to collecting, arranging, and analyzing money laundering information, and to disseminating the information to investigative authorities 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 and analyzing information reported by financial institutions and providing such information to the competent authorities to support the government's anti-money laundering measures; it shows a way for exchanging information that is important for law enforcement agencies."

## **3. Countermeasures against Terrorist Financing**

In countering the financing of terrorism, anti-money laundering measures were thought in most part equally applicable to it, given that among others, it is critical to intercept the terrorist financing and to clarify the sources of the funds in terms of prevention; and also international cooperation has to be extended in the field as well.

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 countering the 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 October 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 Changing ML/TF Trends**

In accordance with development of AML/CFT measures, the trends of ML/TF have also been changing, such as the employment of new tactics, including the use of businesses other than financial institutions for concealment of criminal funds. As a result, the FATF revised in June 2003 “The 40 Recommendations,” extending the scope of operators required to implement the Recommendations to designated non-financial businesses and professions (DNFBPs). Furthermore, in February 2012, the 40 Recommendations and 9 Special Recommendations were integrated and upgraded as the new 40 Recommendations in order to properly address the proliferation of weapons of mass destruction as well as additional threats of corruption including bribery by public officials and appropriation of property (See Table 1-1).

At the Lough Erne Summit in June 2013, the participating countries agreed on the G8 Action Plan Principles, in response to today’s situation surrounding CFT measures and the fact that legal persons and legal arrangements are misused for money laundering and tax evasion due to the lack of transparency in their ownership and management structures.

The G7 Leaders’ Declaration issued in the G7 Summit at Schloss Elmau in June 2015 referred to the risks that virtual assets are misused for terrorist financing and concealment of terrorist funds, and stated that the members will take further actions to ensure greater transparency of all financial flows, including through an appropriate regulation of virtual assets and other new payment methods. The FATF Guidance issued in June 2015 also stated that exchangers of fiat currencies and virtual assets should be licensed or registered and regulated by AML/CFT law with the CDD, STR, recordkeeping, and other obligations.

Moreover, the Communiqué of the G20 Finance Ministers and Central Bank Governors Meeting in March and July 2018 referred to the ML/TF issues of crypto-assets. Following this statement, FATF revised its Recommendations in October 2018 to include the need for AML/CFT regulations on virtual assets exchangers, wallet providers, and providers of ICO-related financial services.



Table 1-1 Overview of the New “40 Recommendations”

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

## Section 2 History of AML/CFT Efforts in Japan

### 1. Enforcement of “the Anti-Drug Special Provisions Law”

Anti-money laundering measures in Japan have been developed in accordance with increasing AML/CFT awareness among the international community. 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 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 recommended remedial actions to be taken for the limited scope of predicate offences for money laundering that had targeted only drug crimes. As a practical matter, it was extremely difficult for reporting entities to determine if each transaction was actually related to drug crimes in reporting suspicious transactions, resulting in fewer suspicious transaction reports. This ineffectiveness was partially caused by the fact 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” was enforced in February 2000 in Japan based on “The 40 Recommendations” as revised in 1996. This law represented progress in regulations against criminal proceeds on several points. Firstly, the scope of predicate offences for money laundering was extended to include other serious crimes besides drug-related crimes. Secondly, the scope of crimes subject to the suspicious transaction reports regime was also extended to include other serious crimes besides drug crimes. Thirdly, the law mandated the Financial Supervisory Agency (later reorganized to the Financial Services Agency) to serve as the FIU of Japan, and the Japan Financial Intelligence Office (JAFIO) was established within the agency, accordingly.

### 3. Enforcement of “the Act on Punishment of Financing of Offences of Public Intimidation” and “the Act on Customer Identification by Financial Institutions”, and Amendment of “the Act on Punishment of Organized Crimes”

As a major development after the terrorist attacks in the US, “the Act on the Punishment of Financing of Offences of Public Intimidation” was enforced in July 2002 as a domestic law to join “the International Convention for the Suppression of the Financing of Terrorism”, criminalizing terrorist financing and collecting of funds for terrorism. At the same time, “the Act on Punishment of Organized Crimes” was partially amended, 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 obligations of customer identification and record keeping required under the said Convention and the 40 Recommendations, “the Act on Customer Identification by Financial Institutions (Customer Identification Act)” 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 Customer Identification Act was amended in December 2004 to provide sanctions to transfer (both receiving/assignment) of passbooks.

#### **4. Development of “the Act on Prevention of Transfer of Criminal Proceeds”**

In response to the extension of the scope of businesses subject to customer due diligence (CDD) and other obligations to include DNFBPs in 2003, “the Headquarters for Promotion of Measures Against Transnational Organized Crime and International Terrorism”, with the Chief Cabinet Secretary as head thereof, in December 2004, publicized “the Action Plan for Prevention of Terrorism” including consideration of the implementation of the re-revised The 40 Recommendations. In November 2005, the abovementioned Headquarters decided that [i] the National Public Safety Commission and the National Police Agency would draft a bill for implementation of the re-revised Recommendations, [ii] the FIU function would be transferred from the Financial Services Agency to the National Public Safety Commission and the National Police Agency, [iii] the competent administrative authorities would provide STR-related guidance and supervision to relevant business sectors.

The National Police Agency drafted the bill, in cooperation with relevant ministries and agencies, quoting all references of 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 Act stipulating the transfer of the FIU was carried out in April of the same year, while the expansion of specified business operators subject to the CDD obligation and other remaining provisions were enforced in March, 2008. In April 2011, upon consideration of discussions on recommendations made under the 3rd FATF Mutual Evaluation of Japan in 2008, 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, etc. The amended Act was fully enforced in April 2013.

Following the G8 Action Plan Principles agreed at the G8 Lough Erne Summit in 2013, Japan also expressed its strong commitment to it by announcing the Japan Action Plan in June 2013, according to which necessary actions including the national risk assessment of ML/TF should be undertaken.

In November 2014, based on the above mentioned results in the 3rd FATF Mutual Evaluation of Japan, the government partially amended the CFT Act (came into force in December 2014) and established the International Terrorist Asset-Freezing Act (October 2015). The

Act on Prevention of Transfer of Criminal Proceeds was also partially amended to [1] add provisions regarding the responsibilities of the National Public Safety Commission in relation to the preparation of national risk assessment reports, [2] clarify the criteria for suspicious transactions, [3] ensure stricter verification regarding correspondence contracts, [4] and expand the obligation for business operators to make efforts to develop necessary systems (came into force in October 2016).

In response to the G7 Leaders' Declaration in the Elmau Summit in 2015 and the FATF Guidance, Japan amended the Payment Services Act in May 2016 to regulate and license virtual assets exchangers. Japan also established the Act Partially Amending the Banking Act, etc. for Responding to the Advancement of Information and Communications Technology and Other Environmental Changes, which partially amends the Act on Prevention of Transfer of Criminal Proceeds to include virtual assets exchangers in the scope of specified business operators. This Act came into force in April 2017.

In June 2017, Japan amended the Act on Punishment of Organized Crimes to add provisions regarding the offense of preparation for terrorism activities, etc. In addition, Japan established the Act Partially Amending the Laws Related to Punishment on Organized Crime and Regulation of Crime Proceeds, in order to [1] expand the scope of predicate offenses related to criminal proceeds through the amendment of the Act on Punishment of Organized Crimes, and [2] expand the scope of receivers of STRs to include officials of the National Tax Agency, National Tax Bureaus, and Tax Offices, who are in charge of investigations of offenses that fall under the expanded scope of predicate offenses, through the amendment of the Act on Prevention of Transfer of Criminal Proceeds. This Act came into force in July 2017.

In response to the FATF Recommendations, which pointed out the risks that casinos are used for ML/TF purposes and the need for introducing CDD obligations regarding customers engaging in financial transactions exceeding a certain threshold, Japan established the Act on Promotion of Development of Specified Complex Tourist Facilities Areas in July 2018, which partially amended the Act on Prevention of Transfer of Criminal Proceeds to include casinos into the scope of specified business operators.

Major amendments of law in 2018 are discussed in detail in Chapter 2 (Legislative Regime on AML/CFT).

The National Police Agency, together with other relevant government ministries and agencies, has as appropriate amended AML/CFT-related legislation including the Act on Prevention of Transfer of Criminal Proceeds and its subordinate decrees as well as various other ordinances, thereby responding to changes in social conditions and addressing the deficiencies identified in the FATF Mutual Evaluation Report (MER) of Japan.

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 1990	The Ministry of Finance issued an order to financial Organizations (requiring financial institutions to verify customer identity)
June 1994	First FATF mutual evaluation of Japan - Recommendations made concerning scope of predicate offences for money laundering that targeted only drug crimes	July 1992	Enforcement of the Anti-Drug Special Provisions Law (Criminalization of money laundering related to drug crimes, establishment of suspicious transaction reporting system)
June 1995	Halifax Summit (Confirmation of the need for extending the scope of predicate offences to serious crimes)		
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)		
July 1998	Second FATF mutual evaluation of Japan - Repeated recommendations made concerning scope of predicate offences for money laundering being only limited to drug crimes		
December 1999	Adoption of the International Convention for the Suppression of the Financing of Terrorism (criminalization of terrorist financing and collection of funds for terrorism became compulsory)	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)
September 2001	Terrorist attacks in the US	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)
October 2001	FATF issued its 8 Special Recommendations - Criminalization of terrorist financing, reporting of suspicious transactions related to terrorism	January 2003	Enforcement of the Customer Identification Act (Obligation of customer identification by financial institutions etc. is legislated)
June 2003	FATF re-revised the 40 Recommendations - Application of recommendations to nonfinancial businesses (real estate agents, dealers in precious metals, dealers in precious stones, etc.) and professions (lawyers, accountants, etc.)	December 2004	Enforcement of the amended Act on Customer Identification by Financial Institutions (Punishment on illicit transfer of passbooks was established.) The Headquarters for the Promotion of Measures Against Transnational Organized Crime and International Terrorism decided on the Action Plan for Prevention of Terrorism.
October 2004	FATF revised its 8 Special Recommendations to make 9 Special Recommendations - Measures were added to prevent physical movement of funds across border	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)
October 2008	FATF announced the results of the Third Mutual Evaluation of Japan - Nine categories, including CDD, were given the "NC" rating	April 2011	Adoption of the amended 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, strengthening of punishments on illicit transfer of passbooks, etc.)

## Global Events

February 2012	FATF revised its 40 Recommendations and 9 Special Recommendations - FATF integrated both into New 40 Recommendations
June 2013	Lough Erne Summit (Agreed on the G8 Action Plan Principles)
June 2014	FATF announced a statement on Japan - FATF requested Japan to take prompt response to insufficient parts of the AML/CFT measures.
June 2015	G7 Elmau Summit (Declaration regarding the introduction of an appropriate regulation of virtual currencies)
March and July 2018	G20 Finance Ministers and Central Bank Governors Meeting (Declaration regarding the ML/TF issues of crypto-assets)
October 2018	Revision of FATF Recommendation 15 "New Technologies" -Pointed out the need for AML/CFT regulations against virtual assets exchangers, etc.

## Events in Japan

April 2013	Full enforcement of the Act on Prevention of Transfer of Criminal Proceeds (the portion amended in April 2011)
June 2013	Release of the Japan Action Plan
November 2014	Adoption of the amended Act on Prevention of Transfer of Criminal Proceeds (provisions for clarification of the judgment method of suspicious transactions, strict verification at the time of the conclusion of correspondence contracts and expansion of the obligation for business operators to make efforts to develop necessary systems)
December 2014	Enforcement of the amended CFT Act
October 2015	Enforcement of the International Terrorist Asset-Freezing Act
May 2016	Amendment of the Act on Prevention of Transfer of Criminal Proceeds (adding virtual currency exchangers into the scope of specified business operators)
October 2016	Full enforcement of the amended Act on Prevention of Transfer of Criminal Proceeds (the portion amended in November 2014)
April 2017	Enforcement of the amended Act on Prevention of Transfer of Criminal Proceeds (amendment approved in May 2016)
July 2017	Enforcement of the amended Organized Crime Punishment Act (amending the Act on Prevention of Transfer of Criminal Proceeds to add new entities as STR receivers in line with the expansion of the scope of predicate offenses regarding criminal proceeds)
July 2018	Amendment of the Act on Prevention of Transfer of Criminal Proceeds (adding casinos into the scope of specified business operators)

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

### 1. History of FIU in Japan

In Japan, although suspicious transaction reporting became obligatory due to the enforcement of the Anti-Drug Special Provisions Law in 1992, a mechanism for centralized management and provision of information to investigative authorities was not created. However, following the enforcement of the Act on Punishment of Organized Crimes in 2000, the first FIU in Japan was established under the Financial Supervisory Agency (later reorganized as the Financial Services Agency) in order to process information related to suspicious transactions and exchange information with foreign countries.

In 2003, the FATF revised the 40 Recommendations again, expanding the scope of businesses subject to the obligation for implementing such measures as verification of customers' identity beyond financial institutions, and in light of this, Japan also decided to expand the scope of businesses subject to the obligation for implementing measures to prevent money laundering beyond financial institutions to real estate agents, dealers in precious

metals and stones and other business operators. As the scope of information related to suspicious transactions was expanded accordingly, it was determined that it was appropriate to shift the authority over the FIU functions, most of which concern analysis, from the Financial Services Agency, which supervises financial institutions, to the police, which use reported information in general for investigation and countermeasures against organized crimes and terrorism. This thinking was revealed by the decision made in November 2005 by the government's Headquarters for the Promotion of Measures against Transnational Organized Crime and International Terrorism to have the National Police Agency write a bill for the implementation of the FATF recommendations.

The Act on the Prevention of Transfer of Criminal Proceeds, which was partially put into force in April 2007, made it clear 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 and analysis of suspicious transaction reports (STRs) filed by specified business operators. The Act also granted the NPSC a function to provide STRs to investigative authorities and foreign FIUs as well as a function to complement supervisory measures against specified business operators. The Japan Financial Intelligence Center (JAFIC) was established within the Organized Crime Department, the Criminal Affairs Bureau of the National Police Agency, as an organization responsible for processing administrative work related to the enforcement of the same law.

In April 2014, the Organized Crime Department merged its Strategy-Planning and Analysis Division and Criminal Proceeds Transfer Prevention Office into the Organized Crime Policy Planning Division. Under the Organized Crime Policy Planning Division, Money Laundering Prevention Office, the Director for analysis of Financial Intelligence (abolished on April 1, 2015), and the Director for International Cooperation were established. In April 2018, the Financial Intelligence Center was established under the Organized Crime Policy Planning Division to promote more sophisticated, comprehensive, and cross-sectorial crime analysis. Money Laundering Prevention Office, the Finance Intelligence Center, and the Director for International Cooperation (hereinafter referred to as "JAFIC") serve as FIU in Japan. Internationally, the NPSC and the NPA are recognized as JAFIC (Japan FIU).

## 2. Mission and Structure

JAFIC is tasked with the following works in accordance with the Act on Prevention of Transfer of Criminal Proceeds.

- Collection, arrangement and analysis on information of suspicious transactions and dissemination of information to investigative authorities etc.
- Dissemination of information to foreign FIUs;
- Investigation and analysis of the status of transfer of criminal proceeds and formulation of the national risk assessment report
- 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/CFT and various measures

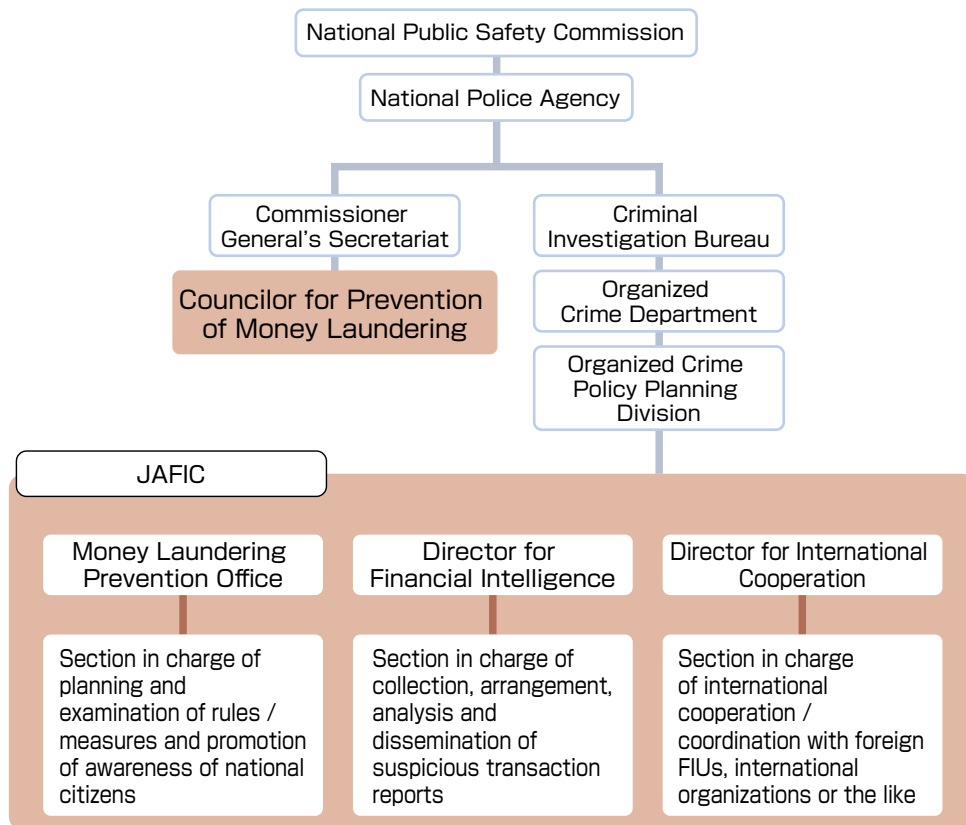


such as “the Guideline for Promotion of the Criminal Proceeds Control”. It also participates in various international AML/CFT standard setting activities.

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.

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 and other crimes.

Figure 1-2 Structure of JAFIC



### 3. Partners

The Act on Prevention of Transfer of Criminal Proceeds provides that financial institutions and other specified business operators shall take initial measures against ML/TF. In addition to performing the duties of FIUs, namely financial intelligence analysis, JAFIC also actively conduct PR activities regarding the situation of ML/TF and legislative measures against it, so that specific business operators can carry out CDD and other AML/CFT measures adequately and smoothly with good public support and understanding.

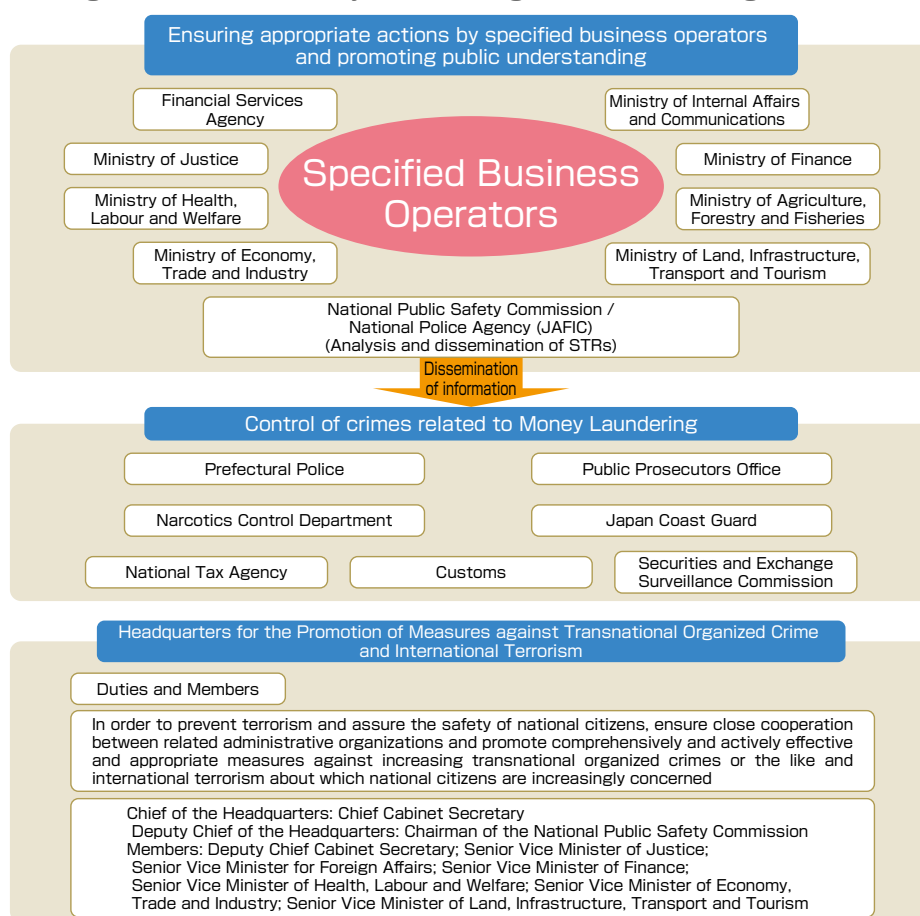
Relevant ministries and agencies in charge of supervising business operators not only exercise the supervisory function to secure the fulfillment of obligations, but also provide support by issuing Lists of Reference Cases of Suspicious Transactions and holding seminars together with industry organizations. On the other hand, investigative authorities such as police, make contributions in the area of punishment of money laundering or predicate offences

or confiscation of their proceeds.

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

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.

Figure 1-3 Anti-money Laundering Measures in Organization



#### 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 are composed of four core principles, six key areas and confidentiality of STR information as follows:

### **1. Core Principles for AML/CFT**

- (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 proceeds
- (4) Promotion of international cooperation on criminal proceeds control

### **2. Key Areas**

- (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 National Police Agency should provide information on the transfer of criminal proceeds and on implementation methods for the measures prescribed in the Act on Prevention of Transfer of Criminal Proceeds, instruction and advice to specified business operators. The National Police Agency and each prefectural police force should 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  
Each prefectural police force shall carry out measures to prevent the transfer of crimi-

nal proceeds 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

The National Police Agency should take initiative in the areas of, for example, inter-FIU information exchange, compliance with the FATF Recommendations, and support the global compliance in an effort to enhance international cooperation on AML/CFT.

### 3. Confidentiality

Necessary and appropriate measures have to be taken to ensure confidentiality and prevent any leakage with regard to any use of STR information in any phase of their duties.

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



# Chapter 2

## Legislative Regime on AML/CFT

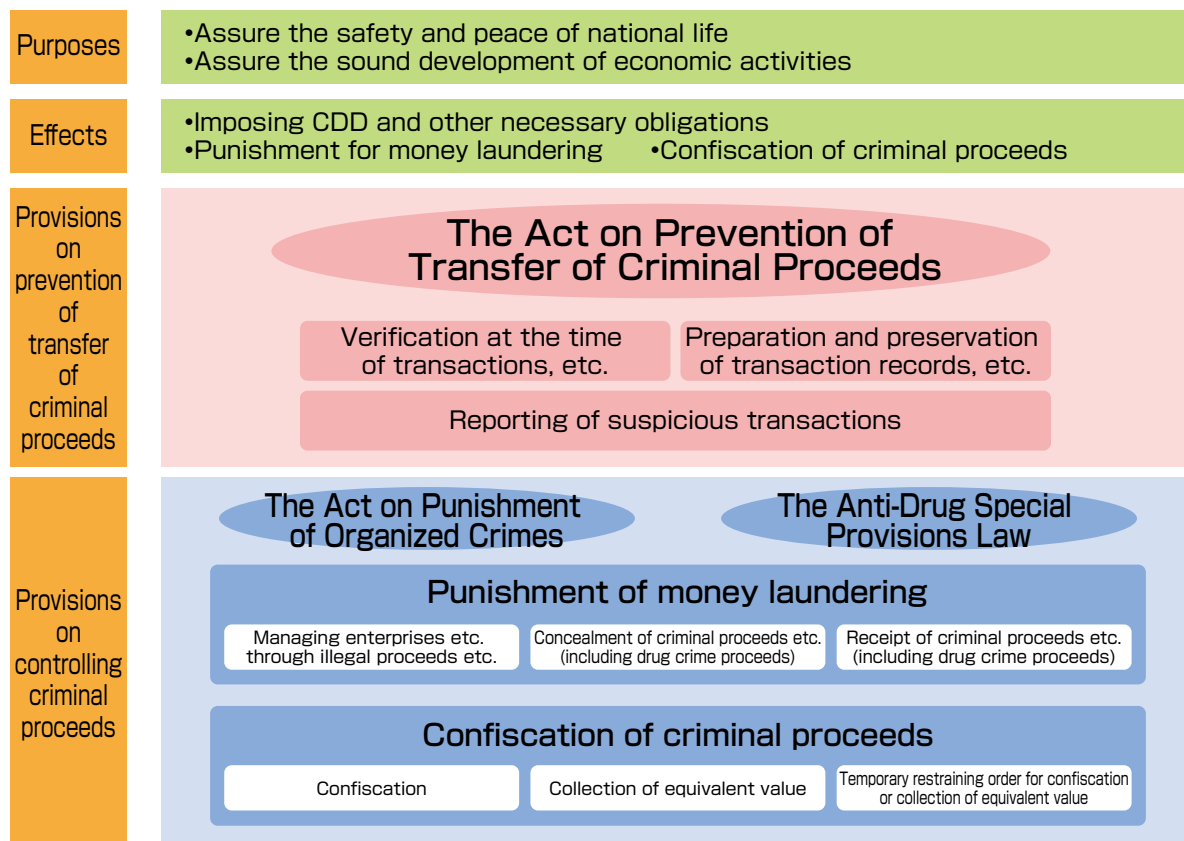
AML/CFT regime in Japan has been developed since the 1980s. Today's AML/CFT regime aims to achieve the following three effects:

- (1) Imposing CDD and other necessary obligations
- (2) Criminalization of money laundering
- (3) Confiscation of criminal proceeds

Of these, (1) is for deterring money laundering by facilitating the tracing of criminal proceeds when they are transferred and making it difficult to avoid prosecution or confiscation, while (2) and (3) are primarily targeting criminal organizations to root out their sources of fund.

(1) is realized mainly by the Act on Prevention of Transfer of Criminal Proceeds, while (2) and (3) are realized by the Act on Punishment of Organized Crimes and the Anti-Drug Special Provisions Law.

Figure 2-1 Relationships of the Act on Prevention of Transfer of Criminal Proceeds, the 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 amended Customer Identification Act and a portion of the Act on Punishment of Organized Crimes in order to address changes in money laundering trends more effectively and comprehensively in a way consistent with global standards set out by the FATF 40 Recommendations in 2003.

The Act provides for preventive measures in combating ML/TF, by imposing obligations on specified business operators to perform CDD, record keeping, filing STRs, etc. In 2011, the following amendments were made to the Act: addition of verifying details for transactions; addition of telephone forwarding service providers to the list of specified business operators; addition of measures for appropriate verification at the time of transactions; and increased punishments on illicit transfer of passbooks, etc. The amended Act was fully enforced on April 1, 2013. In addition, in 2014, a legal amendment was made to include provisions for clarification of the determination method of suspicious transactions, enhanced verification at the time of the conclusion of correspondence contracts and expansion of the obligation for specified business operators to make efforts to develop internal policies, procedures and controls, etc. and this amendment was fully enforced on October 1, 2016.

### 1. Purpose of the Act (Article 1)

The purpose of the 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 a specified business operator, as described in 3 below, coupled with other measures stipulated by the Act on Punishment of Organized Crimes and the Anti-Drug Special Provisions Law.

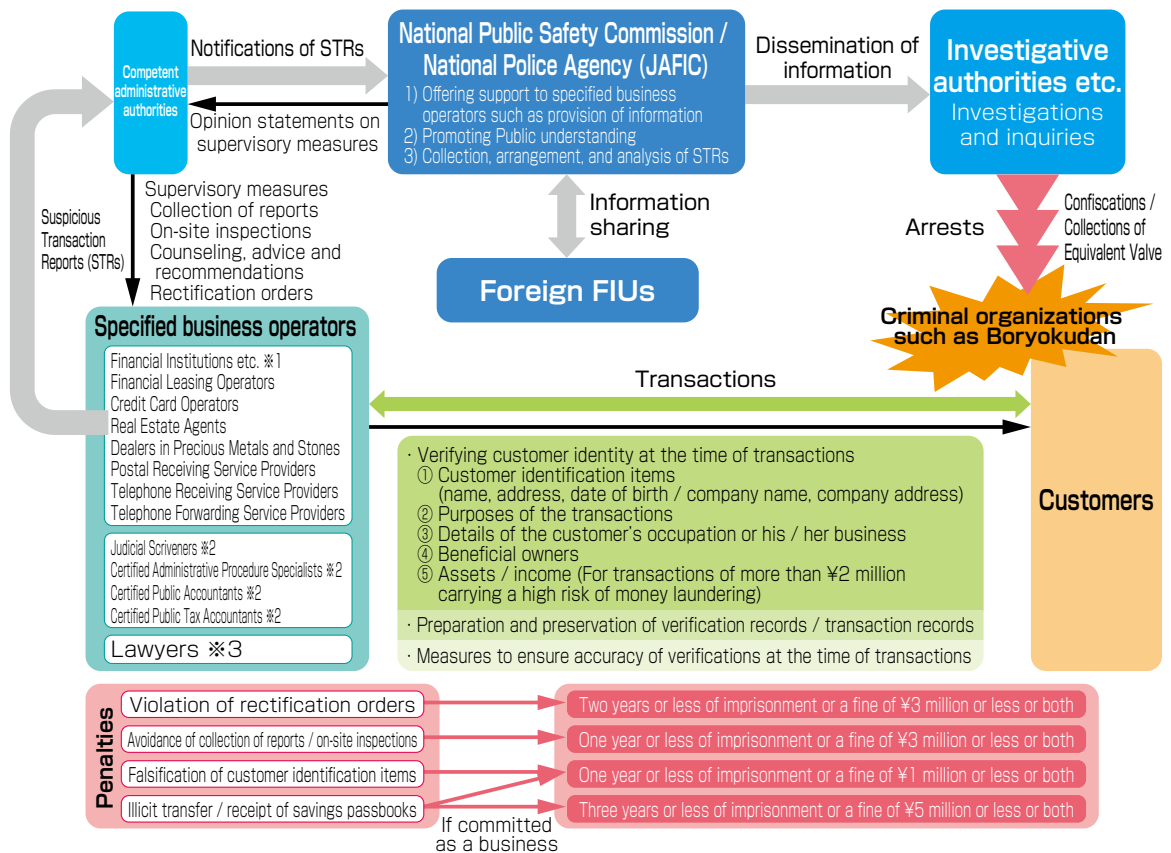
### 2. Criminal Proceeds (Paragraph 1 of Article 2)

The term "criminal proceeds" as used in the 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)

Any financial institution or DNFBP which falls under the Act and thus is required to perform CDD and other obligations, should be called "specified business operators", whose designation would occur in line with the FATF standards and also the domestic business context.

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 ① only.
- ※ 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.

### Specified business operators

○Financial institutions (items 1 through 37):

Bank (item 1); Shinkin bank (item 2); Federation of Shinkin banks (item 3); Labor bank (item 4); Federation of labor banks (item 5); Credit cooperative (item 6); Federation of credit cooperatives (item 7); Agricultural cooperative (item 8); Federation of agricultural cooperatives (item 9); Fishery cooperative (item 10); Federation of fishery cooperatives (item 11); Fishery processing cooperative (item 12); Federation of fishery processing cooperatives (item 13); Norinchukin Bank (item 14); Shokochukin Bank (item 15); Development Bank of Japan (item 16); Insurance company (item 17); Foreign insurance company, etc. (item 18); Small-claims/short term insurance business operator (item 19); Federation of fishery cooperatives for mutual aid (item 20); Financial instruments business (item 21); Securities finance company (item 22); Specially permitted business notifying person (item 23); Trust company (item 24); Self-trusted company



(item 25); Real estate specified joint enterprise operator, Small-scale real estate specified joint enterprise operator, special business operator or Qualified specially permitted investor limited business operator (item 26); Mutual loan company (item 27); Money lender (item 28); Call money market broker (item 29); Fund transfer company (item 30); Virtual Assets exchange service provider (item 31); Futures commission merchant (item 32); Book-entry transfer institution (item 33); Account management institution (item 34); Electronic receivables recording organization (item 35); Management Organization for Postal Savings and Postal Life Insurance (item 36); Currency exchanging operator (item 37)

- Financial leasing operator (item 38)
- Credit card operator (item 39)
- Real estate agents (item 40)
- Dealers in precious metals and stones (item 41)
- Postal receiving service providers, telephone receiving service, providers and telephone forwarding service providers (item 42)
- Lawyer or legal profession corporation (item 43)
- Judicial scrivener or judicial scrivener corporation (item 44)
- Certified administrative procedures specialists or administrative scrivener corporation (item 45)
- Certified public accountant or audit firm (item 46)
- Certified public tax accountants or certified tax accountant corporation (item 47)

#### 4. Responsibilities, etc. of the National Public Safety Commission (Article 3)

The 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 support 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.

In addition, the National Public Safety Commission is required each year to investigate and analyze the status of transfer of criminal proceeds, including modus operandi related to the transfer, and compile and publish NRA, which describes the investigation and analysis results, including the risk level of transfer of criminal proceeds by type of transaction conducted by specified business operators and other business operators.

#### 5. Measures by Specified Business Operators

The measures which specified business operators (excluding lawyers; the same shall apply in this section except for 5(8) and Table 2-1) are obligated to implement and the measures

related to identification by lawyers are described in (1) to (8) and Table 2-1 below.

**(1) Verification at the time of transactions (Article 4)**

In conducting specified transactions described in Table 2-2 with customers who are natural persons, specified business operators are required to verify their identification data (the name, address and date of birth), the purpose and intended nature of the transaction, and occupation by asking for their identification documents such as driver's license. If the customer is a legal person, the specified business operator must check its identification data (the name and location of the head office or main office), the purpose and intended nature of the transaction, type of business and the beneficial owner. However, in cases where the specified business operator is either a judicial scrivener, administrative scrivener, certified public accountant or tax accountant; hereinafter referred to as a "judicial scrivener, etc."), it is sufficient to verify the customers' identification data alone.

When a specified transaction is conducted with a customer's agency or a representative of the customer corporation, identification data of said agency or representative must also be verified.

Regarding transactions that have a high risk of being related to ML/TF, where there is a suspicion of pretending to be a customer, etc. on conducting specified business affairs which does not fall under specified transactions, specified business operators are required to verify items related to verification at the time of transactions with a more enhanced method than usual. Moreover, in cases where the transaction involves the transfer of assets worth more than ¥2 million, specified business operators except lawyer and judicial scrivener, etc. are required to verify information concerning customers' source of wealth and source of funds.

(For details, see the Japan Financial Intelligence Center (JAFIC) Website)

Methods of verification at the time of transactions are as shown in Figures 2-3 and 2-4.

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

Specified business operators are required to prepare and preserve 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)**

Specified business operators are required to prepare and keep the record of the date and contents of transactions concerned for seven years;

**(4) Reporting of suspicious transactions (Article 8)**

Specified business operators are required to file an STR with the competent administrative authority in cases where an asset received through specified business affairs is suspected of being criminal proceeds, or where the customer is suspected of engaging in money laundering with regard to the specified business affairs (excluding lawyers and judicial scriveners, etc.).

Determination as to whether or not a suspicious transaction report should be submitted will be made under a method<sup>(Note)</sup> prescribed by the ordinance of the competent ministries

while taking account of the contents of NRA, in addition to the results of verification at the time of transactions, patterns and natures of transactions and other circumstances.

(Note) Methods, etc. of verification whether there is a suspicion of ML through comparison of the nature of transactions with those of usual transactions, comparison with past transactions with the same customer, and checking of the consistency with the content verified at the time of transactions, etc.

**(5) Enhanced verification at the time of the conclusion of correspondence contracts (Article 9)**

When concluding a correspondent banking contract<sup>1</sup> under which exchange transactions with an exchange business operator located abroad are conducted continuously or repeatedly, specified business operators who conduct exchange transactions on a regular basis are required to verify that the foreign exchange business operator located abroad has developed a system necessary for appropriately implementing a measure equivalent to verification at the time of transactions.

**(6) Notification pertaining to foreign exchange transactions (Article 10)**

In making wire transfers to other countries, specified business operators conducting exchange transactions on a regular basis are required to notify the receiving exchange transaction business operator located abroad of certain items, such as the customer's name and account number.

**(7) Measures to ensure thorough and effective CDD measures to be taken (Article 11)**

Specified business operators are required to endeavor to take measures to keep information up-to-date concerning matters for which verification at the time of transactions has been conducted, formulate rules concerning the implementation of such measures as verification at the time of transactions, etc. and appoint a person in charge of supervising business affairs, etc.

**(8) Measures for verification of customer identification data by lawyers (Article 12)**

It is established by special provision, that lawyers shall conduct measures relevant to those described in (1) through (3) and (7) above based on The Rule of the Japan Federation of Bar Associations in line with cases of judicial scrivener.

The CDD regime in which measures as described in (1) through (3) above are undertaken is intended to make the financial or other services less attractive to those who try to use them for money laundering or any other illicit purposes and to ensure traceability of illicit funds. Meanwhile, the STR regime as described in (4) in which reported information will be used for investigations into money laundering and/or predicate offences, is also intended to protect the financial system from misuse to ensure its soundness. Measures (as noted in (7)) are intended to ensure accuracy of the customer identification process during transactions, making the process more efficient. These measures are expected to help specified business operators to be aware of ML/TF risks more comprehensively and efficiently.

The purpose of notification pertaining to enhanced verification at the time of the conclusion

<sup>1</sup> A correspondent banking contract is concluded by a Japanese financial institution with a foreign financial institution with regard to deputy work related to exchange business for the purpose of international settlements. This contract makes it possible for Japanese financial institutions which do not have deposit accounts at foreign banks to indirectly make settlements using other banks' deposit transaction relationships.

of correspondence contracts and foreign exchange transactions described in (5) and (6) is to make the financial or other services less attractive to those who try to use them for international money laundering and also to ensure international traceability of illicit funds.

**Table 2-1 【Measures that Must be Implemented by Specified Business Operators under the Act】**

Specified business operators (Article 2, paragraph (2))	Mandatory measures	Verification at the time of transaction [Article 4]	Preparation and preservation of verification records [Article 6]	Preparation and preservation of transaction records etc. [Article 7]	Reporting of suspicious transactions [Article 8]	Enhanced verification at the time of the conclusion of correspondence contracts [Article 9]	Notification pertaining to foreign exchange transactions [Article 10]	Measures to ensure thorough and effective CDD measures to be taken [Article 11]
Financial institutions (items 1 through 37)						○ (Limited to those who conduct exchange transactions on a regular basis)	○ (Limited to those who conduct exchange transactions on a regular basis)	
Financial leasing operators (item 38)								
Credit card operators (item 39)								
Real estate agents (item 40)		○			○			
Dealers in precious metals and stones (item 41)								
Postal receiving service providers (item 42)			○	○				○
Telephone receiving service providers (item 42)								
Telephone forwarding service providers (item 42)						×	×	
Judicial scriveners (item 44)								
Certified administrative procedures specialists (item 45)		○						
Certified public accountants (item 46)	(Only identification data)							
Certified public tax accountants (item 47)					×			
Lawyers (item 43)		As prescribed by the bylaws set by the Japan Federation of Bar Associations based on examples of judicial scriveners, etc. (Article 12).						As prescribed by the bylaws set by the Japan Federation of Bar Associations based on examples of judicial scriveners, etc. (Article 12)

**Table 2-2 [Specified Business Affairs and Specified Transactions Requiring Performance of Obligations by Specified Business Operators]**

Specified business operators (Article 2, paragraph (2))	Specified business affairs	Specified transactions
Financial institutions (items 1 through 37)	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 million yen, cash remittance exceeding 100,000 yen, etc.
Financial leasing operators (item 38)	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 39)	Credit card business affairs	Conclusion of contracts for the delivery or issuance of a credit card
Real estate agents (item 40)	Business affairs which pertain to buying and selling of building lots or buildings, or agent work or intermediation thereof	Conclusion of contracts for buying and selling of building lots or buildings, or agent work or intermediation thereof
Dealers in precious metals and stones (item 41)	Business affairs which pertain to buying and selling of precious metals (gold, platinum silver and alloys of these metals) and jewelry (diamonds and other precious stones, semiprecious stones and pearls)	Conclusion of contracts for buying and selling precious metals, etc. whose payment amount exceeds 2 million yen by cash
Postal receiving service providers (item 42)	Business affairs for providing the service of receiving postal mail on behalf of a customer	Conclusion of contracts for the provision of service
Telephone receiving service providers (item 42)	Telephone receiving services	Conclusion of contracts for the provision of service *Excluding conclusion of a contract which includes a clause stating that the agent operator will clearly specify the company name of the agent when receiving a telephone call *Excluding conclusion of a contract for a call center business
Telephone forwarding service providers (item 42)	Telephone forwarding services	Conclusion of contracts for the provision of service
Judicial scriveners (item 44) Certified administrative procedures specialists (item 45) Certified public accountants (item 46) Certified public tax accountants (item 47)	Business affairs which pertain to agent or deputy work for the following acts: · Acts or procedures concerning 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 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 million yen *Excluding conclusion of a contract for a voluntary guardian .

Figure 2-3 Methods of Verification at the Time of Transaction (for individuals)

## Methods of Verification at the Time of Transaction

**○ For Individuals** Verify the customer identification items (name, address, date of birth), purpose and intended nature of the transaction, and occupation. In addition, the identity of the person who actually carries out the transaction must also be verified as above if the transaction is carried out by a proxy.

**For Face-to-Face Transactions**

- Presentation of a driver's license, passport, etc. as well as declaration of purpose and intended nature for transaction and occupation
- Presentation of a health insurance certificate, pension passbook, etc. and declaration of purpose and intended nature for transaction and occupation

+

\*Sending by the specified business operator of documents related to the transaction to the address, which does not need forwarding, written on the personal identification document by registered mail, or \*presentation or sending by the customer of an identification document or receipt for utility fee payment
- Presentation of a copy of a certificate of residence or a government-issued document without a photo and declaration of purpose and intended nature for transaction and occupation

+

Sending of documents related to the transaction to the address, which does not need forwarding, written on the personal identification document by registered mail.

**For Non Face-to-Face Transactions (Website, Mailing Service, etc.)**

- Sending of identification image data (an image of the customer's appearance captured using software provided by the specified business operator and image data of the customer's photo identification (an image in which the customer's name, address, and date of birth, and the photo of the customer's face and thickness and other features of the photo identification are recognizable)) using software provided by the specified business operator, and declaration of the purpose and intended nature of the transaction and the customer's occupation
- Sending of identification image data (an image of the customer's appearance captured using software provided by the specified business operator) and information on the integrated circuit (IC) of a customer's photo identification (name, address, date of birth, and photo data) by the customer using software provided by the specified business operator, and declaration of the purpose and intended nature of the transaction and the customer's occupation
- Sending of identification image data (image data of the customer's driver's license, residence card, individual number card, passport, health insurance card, national pension book, etc. captured using software provided by the specified business operator (an image in which the customer's name, address, date of birth and thickness and other features of the said driver's license, etc. are recognizable) or information on the integrated circuit (IC) of a customer's photo identification (name, address, date of birth, and photo data) read and sent using software provided by the specified business operator, and declaration of the purpose and intended nature of the transaction and the customer's occupation

+

Confirming that another specified business operator verified the said customer in the transaction with the customer by verifying the name, residence and the date of birth and keep the verification record and having the said customer give information only known by the said customer himself / herself so that the another specified business operator can verify that the said customer is identical to the customer in the verification record (name, address, and date of birth verified and recorded by said another specified business operator).
- Sending of a personal identification document or its copy, plus declaration of purpose and intended nature for transaction and occupation

+

Sending of money from the specified business operator to the customer's savings account (for which the name, address, and date of birth of the customer were verified and recorded upon the conclusion of the savings account contract).

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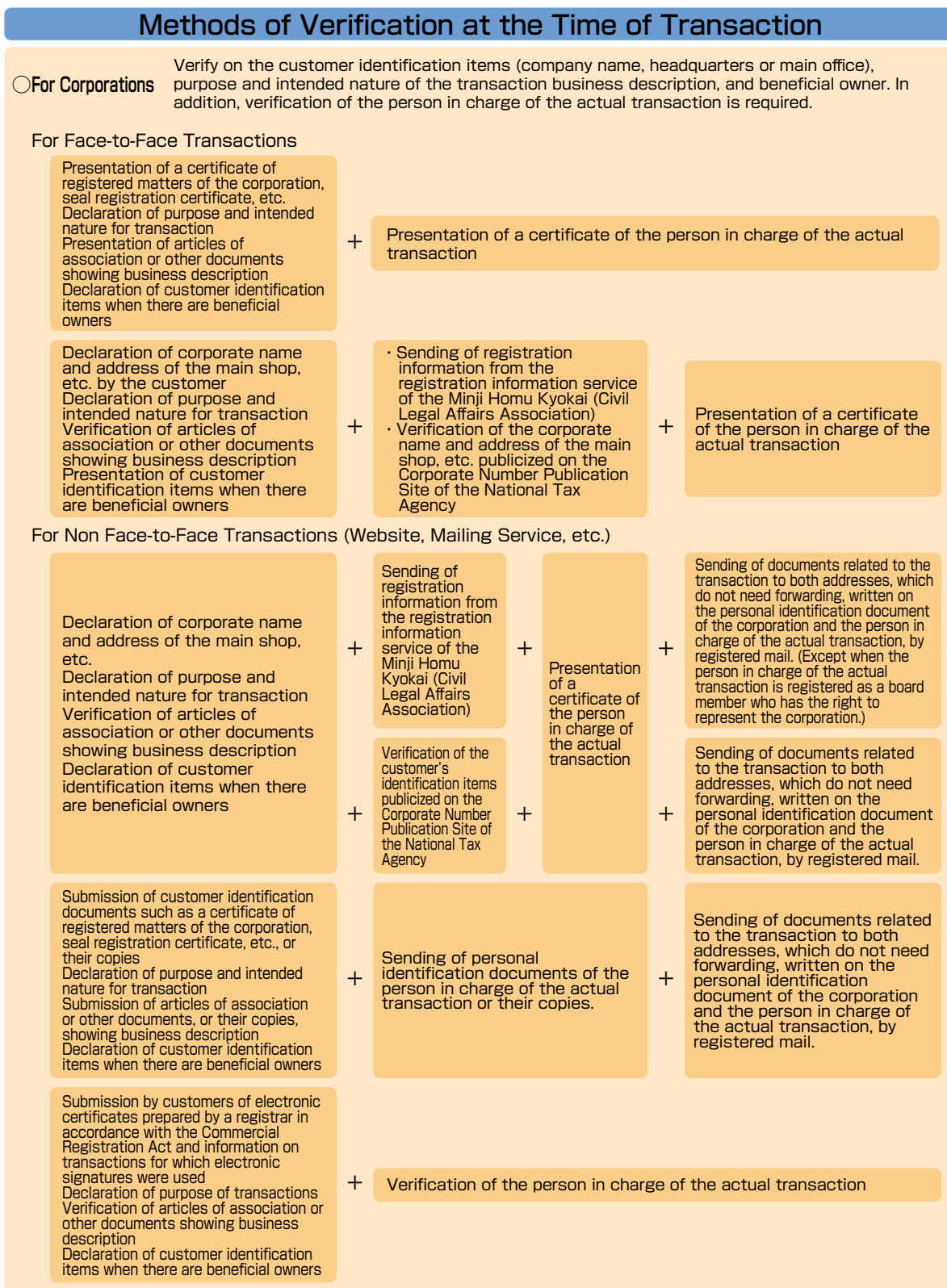
Sending of a copy of the customer's savings passbook, etc. on which the amount of money received, etc. is recorded.
- Sending of an electronic certificate (which shows the name, address and date of birth) and information on a transaction for which electronic signatures were used, plus declaration of purpose and intended nature of transaction, and occupation (Electronic certificates under the Act on Certification Business of Local Governments in Relation to Electronic Signatures may also be used.)

**○ If the person is a short-term visitor (such as a tourist) and does not have residence in Japan, or whose domicile in the country foreign national belongs to cannot be verified by his / her passport.**

**Face-to-Face Transactions Only**

Although transactions requiring verification of personal identification (when engaging in a transaction) cannot be carried out without such residence confirmation in principal, transactions for foreign money exchange, sale or purchase of jewelry, precious metals, etc., are possible upon customer identity verification, i.e. by presenting a passport or crewman's pocket-ledger describing nationality and passport number, in addition to name and birth date.  
\* If a stamp of permission of landing certifies that the duration of stay does not exceed 90 days, this corresponds to the fact that the person does not have residence in Japan.

Figure 2-4 Methods of Verification at the Time of Transaction (for corporations)



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



## **6. Dissemination of STR Information (Articles 13 and 14)**

In order to make use of STR information for investigations conducted domestically or internationally JAFIC may disseminate such information to public prosecutors, assistant officers to prosecutors, judicial police officials (police officers, narcotics control agents and coast guards, etc.), relevant officials of the National Tax Agency, regional taxation bureaus or tax offices, customs officers, personnel of the Securities and Exchange Surveillance Commission (SESC) and other related investigators. JAFIC would also disseminate STR information to foreign FIUs concerned based on the agreed terms of conditions.

## **7. Supervision (Articles 15 to 19, 25, 26 and 31)**

The Act provides for a supervisory regime undertaken by competent administrative authorities in order to ensure the compliance of specified business operators. For this purpose, the supervising authorities would exercise a supervisory power by conducting on or off-site inspection of the regulated businesses, provide the necessary guidance, advice, and make the necessary suggestions or issuing a rectification order for non-compliance as necessary.

Persons who have failed to submit reports or materials, submit false reports or materials or 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. Persons who violate 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.

Importantly, to complement the supervision by the regulating authorities, JAFIC is authorized to advise the supervising authorities over whether appropriate actions should be taken against specified business operators based on the fact of non-compliance JAFIC detected. For the purpose of this duty, JAFIC is also granted a power of inspection of a specified business operator in doubt.

## **8. Penal Provisions regarding Receipt/Delivery/Provision of Deposit/Savings Passbooks, etc. (Articles 28 to 30)**

For years it had been a significant challenge to take actions against traded deposit/savings passbooks, ATM cards, exchange transaction cards, IDs and passwords for virtual assets transactions (information for virtual assets exchange), etc., which were exposed to exploitation for the purpose of money laundering or any proceed-related crimes. In order to prevent this, the Act prohibits anyone to give or take a deposit/savings passbook, an exchange transaction card, or information for virtual assets exchange, etc. as a subject of transaction no matter whether or not it is for value with a penalty of imprisonment with labor for not more than one year or a fine of not more than one million yen or both. Specifically, when such transaction is conducted as a business of any parties concerned, the penalty would be aggravated to imprisonment with work for not more than three years or a fine of not more than five million yen or both.

Furthermore, it is also prohibited that anyone invites or solicits another party to assign, deliver or provide a deposit/savings passbook no matter whether or not it is for value, resulting in a punishment of imprisonment with labor for not more than one year or a fine of not more than one million yen or both.

## Section 2 Legislative Changes in 2018

From the AML/CFT perspective, the National Police Agency has made necessary amendments as appropriate to the Act on Prevention of Transfer of Criminal Proceeds and its subordinate decrees in order to adapt to the current AML/CFT situation.

### 1. Amendment of the Act on Prevention of Transfer of Criminal Proceeds in Response to the Enactment of the Act on Promotion of Development of Specified Complex Tourist Facilities Areas

The FATF Recommendations state that governments should require casinos to take CDD measures regarding customers who are engaging in financial transactions exceeding a certain amount, because of the characteristics of casino business, such as the involvement of financial services and enormous cash transactions.

In Japan, the Council for Promoting Development of Specified Complex Tourist Facilities Areas pointed out in its summary report published in July 2017 that casinos should be regulated in the same manner as other business operators regulated by the Act on Prevention of Transfer of Criminal Proceeds from the AML/CFT perspective.

Based on the above recommendations, a draft of the Act on the Development of Specified Complex Tourist Facilities Areas—which included a partial amendment of the Act on Prevention of Transfer of Criminal Proceeds to include casinos into the scope of specified business operators subject to the obligations of verification at the time of transactions, preparation and preservation of verification records, reporting of suspicious transactions, etc.—was submitted to the 196th session of the Diet. The Act was enacted on July 20 and promulgated on July 27 of the same year (the Act is due to enter into force within three years from the date of promulgation).

### 2. Amendment of the Ordinance for Implementation of the Act on Prevention of Transfer of Criminal Proceeds (Efficient Identification Methods Compatible with FinTech, Etc.)

#### (1) Backgrounds to the amendment

Based on the Future Investment Strategy approved by the Cabinet in 2017 and 2018, the Ordinance for Implementation of the Act on Prevention of Transfer of Criminal Proceeds were amended to introduce online identification methods and make other necessary changes to the Act to ensure that it is compatible with today's FinTech. The amended Act was promulgated and entered into force on November 30, 2018.

#### (2) Key points of the amendment

Explained in A to C of (2) below are new online identification methods that are intended to ensure compatibility with FinTech. Explained in D and E are the standards that have been revised to prevent the current identification methods from having any loophole for misconduct. Explained in F is the addition to the transactions for which simplified CDD measure is allowed

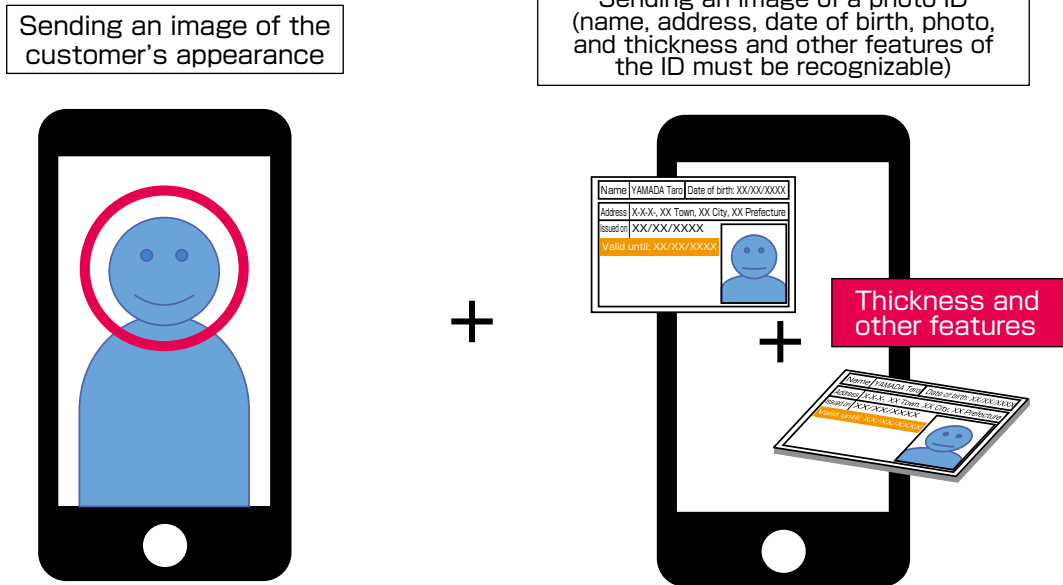
A. Methods for Customer Verification Using a Customer's Face Photo

Under the amended Act, a specified business operator is allowed to identify a customer, etc. by receiving data of images of the appearance of said customer, etc.

and his/her identification document captured and sent using software provided by said specified business operator (the name, address, date of birth, photo on the customer's photo identification document and the thickness and other features of the identification document must be recognizable) (see Figure 2-5).

Figure 2-5

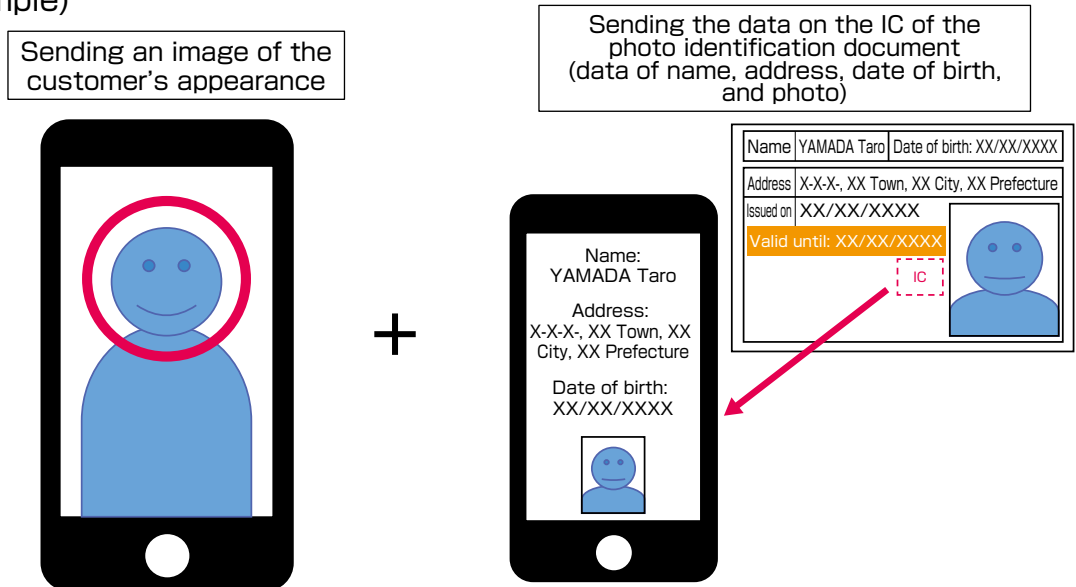
(Example)



A specified business operator is also allowed to identify a customer, etc. by receiving [1] data of an image of the appearance of the customer him/herself, etc. captured and sent using software provided by said specified business operator, and [2] the data of name, address, date of birth, and photo on the integrated circuit of the photo identification document of the customer, etc. sent using said software (see Figure 2-6).

Figure 2-6

(Example)



## B. Methods for Customer Verification Using Other Specified Business Operator's Identification Data

A specified business operator is allowed to identify a customer [1] by receiving the data of an image of an identification document of the said customer, etc. issued only for once, which is captured and sent using software provided by said specified business operator (the name, address, date of birth and the thickness and other features of the identification document must be recognizable), or [2] by receiving the data of name, address and date of birth on the integrated circuit of an identification document of the customer, etc., which are read and sent using said software; in addition, either of the following must be fulfilled.

- Confirm that another specified business operator have conducted the customer verification of the said customer, etc. and kept the records thereof when it entered into a savings account contract or credit card contract with the said customer, etc., while also confirming that the said another specified business operator have confirmed that the said customer, etc. is identical to the customer recorded in the said records by receiving a declaration from the customer, etc. (see Figure 2-7).
- Send money to the savings account of the said customer, etc. and then receiving a copy of his/her savings passbook on which information necessary to identify said money transfer is described (see Figure 2-8).

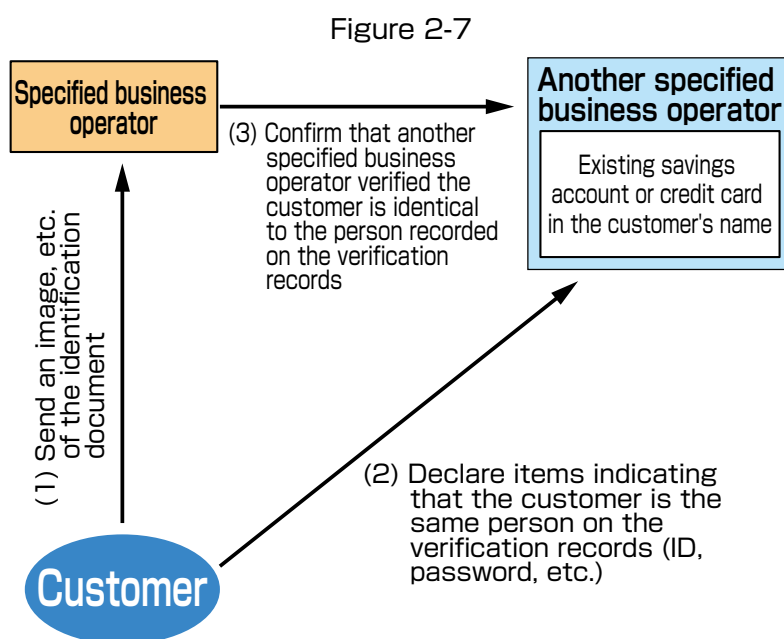
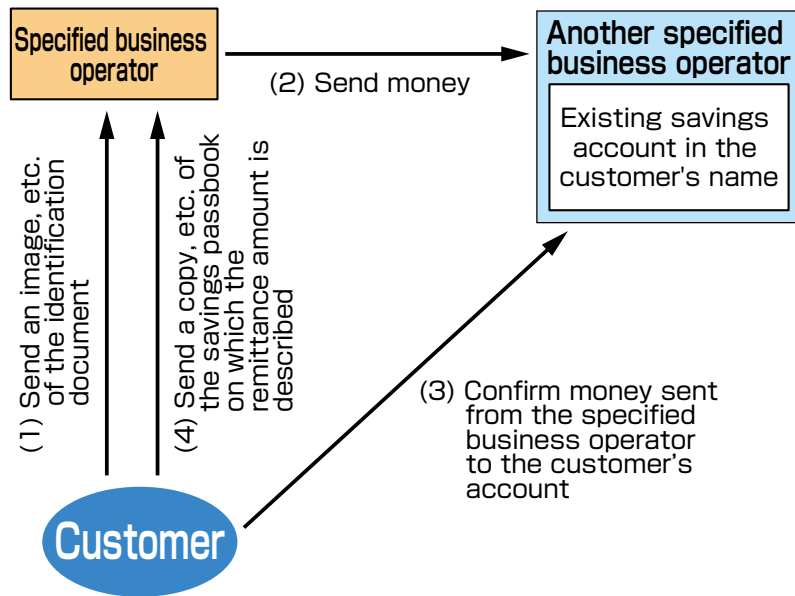


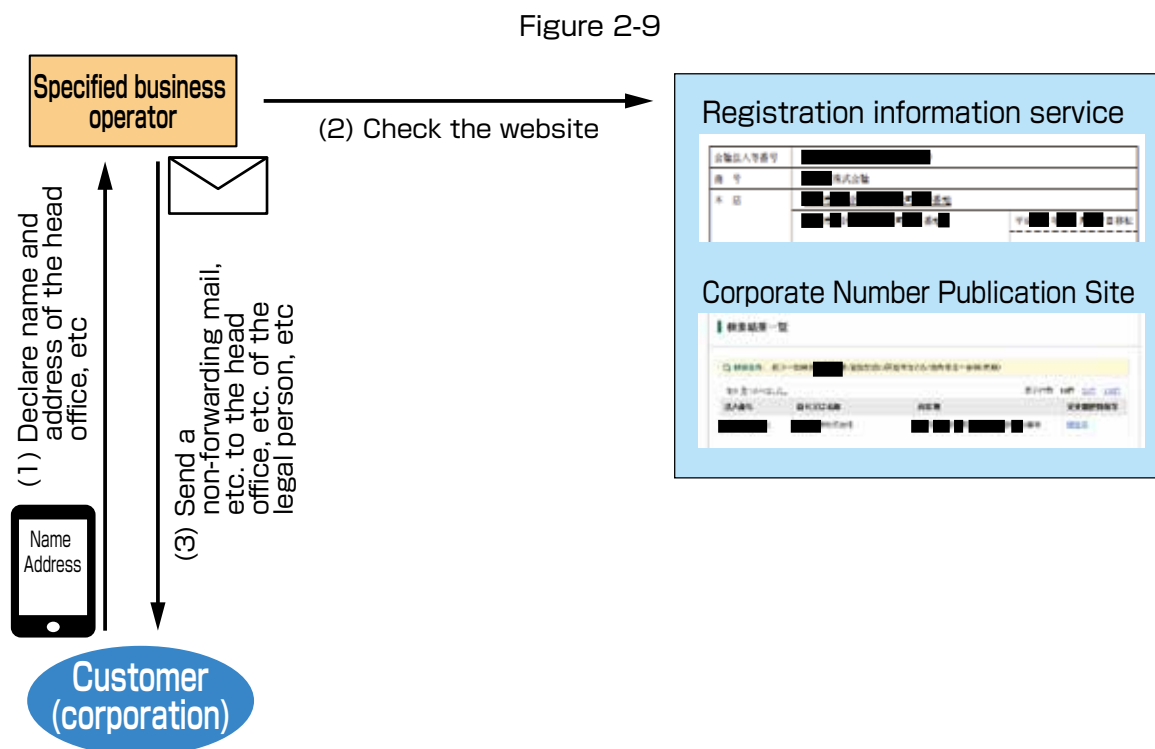
Figure 2-8



### C. Methods for Customer Verification Using Public Websites

A specified business operator is allowed to verify identification items of a customer who is a legal person, etc. by receiving the declaration of the name and address of the head office or main office of the said legal person, etc. from the representative of said legal person, etc. and receiving registration information from the registration information service of the Minji Homu Kyokai (Civil Legal Affairs Association) (if the said declaration was given remotely by a representative of the said legal person, etc. who is not registered as a board member with the right to represent the said legal person, etc., said specified business operator must also send a transaction-related document as a non-forwarding mail to the head office, etc. of the said legal person, etc.).

In addition, a specified business operator is also allowed to verify identification items of the said legal person, etc. by receiving the declaration of the name and address of the head office or main office of the said legal person, etc. from the representative of the said legal person, etc. and verifying the name and address of the head office or main office of the said legal person, etc. on the Corporate Number Publication Site of the National Tax Agency (if said declaration was given remotely by the representative of said legal person, etc., said specified business operator must also send a transaction-related document as a non-forwarding mail to the head office, etc. of the said legal person) (see Figure 2-9).



D. Revision of the Methods for Customer Verification Using Non-Forwarding Mails, Etc. for Non-Face-to-Face Transactions (Due to Enter into Force on April 1, 2020)

The methods to verify identification items using non-forwarding mails, etc. for non-face-to-face transactions were revised and upgraded into the following methods (A) to (C) below.

- (A) Take any of the following measures and send a transaction-related document as a non-forwarding mail to the address of the customer, etc.
- Receive the identification document of the customer.
  - Receive the data of name, address, and date of birth recorded on the integrated circuit of the identification document of the customer.
  - Receive the data of an image of the identification document of the said customer, etc. issued only for once, which was captured and sent using software provided by said specified business operator (the name, address, date of birth, and the thickness and other features of the identification document must be recognizable).
- (B) Take any of the following measures and send a transaction-related document as a non-forwarding mail to the address of the customer, etc.
- Receive copies of two kinds of identification documents on which the current address of the customer, etc. is described.
  - Receive a copy of an identification document of the said customer, etc., and a supplementary document on which the current address of the said customer, etc. is described or a copy thereof.
- (C) Receive a copy of an identification document when conducting a transaction

falling under any of the following categories, and send a transaction-related document as a non-forwarding mail to the address of the customer, etc.

○A transaction involving the conclusion of a savings account contract with an employee of a legal person, etc. which is deemed to be low risk of ML/TF.

○A transaction involving an act of letting the customer, etc. obtain securities, in which the specified business operator is informed of the individual number of the customer, etc.

E. Revision of the Methods for Customer Verification Using Registered Mails (Due to Enter into Force on April 1, 2020)

In the methods for customer verification by sending a transaction-related document to the customer, etc. as a mail that can only be received by the addressee him/herself or his/her representative designated by the addressee him/herself, acceptable identification documents is limited to photo identification documents only.

F. Transactions for Which Simplified CDD measure Is Allowed

(A) While the Act before amendment provided a list of transactions for which simplified CDD measure was allowed, such as the conclusion of contracts concerning trusts, the amended Act provides a more comprehensive category for which simplified CDD measure is allowed, including transactions for the purpose of managing the property which needs to be returned to the third party when there is a risk that the customer may fail to protect the said third party.

(B) Commodity futures trade contracts with specified business operators using the SWIFT network and verification or payment instructions are made through the SWIFT network, are added to the scope of transactions for which simplified customer management is allowed.

### **3. Amendment of the Ordinance for Implementation of the Act on Prevention of Transfer of Criminal Proceeds Following the Rainstorm in July 2018 and the 2018 Hokkaido Eastern Iburi Earthquake**

In light of the damage from the rainstorm in July 2018 and the 2018 Hokkaido Eastern Iburi Earthquake, the Ordinance for Implementation of the Act on Prevention of Transfer of Criminal Proceeds were amended to introduce some special measures for the victims of these disasters, including the one to allow identification CDD based on the declaration of customers instead of normal procedures, when it is impossible to follow the normal procedures because of the loss of identification documents, etc.

## **Section 3 Outline of the Act on Punishment of Organized Crimes and the Anti-Drug Special Provisions Law**

### **Paragraph 1 The Act on Punishment of Organized Crimes**

The Act on Punishment of Organized Crimes was enacted in response to the requirement for



expanding the scope of predicate offences of money laundering to include serious crimes due to the revision of the FATF 40 Recommendations in 1996 and the international agreement reached at the 1998 Birmingham Summit on the establishment of FIUs. It was put into force in February 2000. In terms of criminal proceeds regulations, this law has expanded the scope of predicate offences of concealment of criminal proceeds, etc. to include certain serious crimes. It also provides for the confiscation and collection of equivalent value of criminal proceeds, etc. Provisions concerning FIU were provided in the Act on Punishment of Organized Crimes until the enforcement of the Act on Prevention of Transfer of Criminal Proceeds.

## **1. Criminalization of Money Laundering (Articles 9 through 11)**

### **(1) Illegal corporate control management (Article 9)**

The Act on Punishment of Organized Crimes criminalizes the act of changing executives, etc. of a legal person as a means to control its business management using illicit proceeds (proceeds from certain crimes, proceeds from certain drug-related crimes, assets acquired through ownership or disposition of those proceeds and assets including such assets and other assets).

### **(2) Concealment of criminal proceeds (Article 10)**

The following act are criminalized by this article: (i) The Act of disguising facts with respect to acquisition or disposition of criminal proceeds, (ii) the act of concealing criminal proceeds, (iii) the act of disguising facts with respect to the source of criminal proceeds.

### **(3) Receipt of criminal proceeds (Article 11)**

The act of knowingly receiving criminal proceeds is criminalized by this article.

## **2. Confiscation, Collection of Equivalent Value and Preservation Measures (Articles 13 through 16, 22, 23, 42 and 43)**

The system of confiscation and collection of equivalent value provided in the Act on Punishment of Organized Crimes is left to the discretion of the court in principle, like the system provided in the Penal Code. However, it has been strengthened compared with the system in Penal Code. In the Act on Punishment of Organized Crimes, the scope of items subject to the system has been expanded to include monetary claims and assets obtained as the fruit of criminal proceeds and the preservation measures have been established.

Regarding the restraining order for confiscation, one of the preservation measures, the court may prohibit—either upon the request of a prosecutor or based on its own authority—the disposition of assets that should be confiscated in a prosecuted case in order to prevent the disposition before a court judgment is made. In cases where there is the possibility that an offender who acquired assets that are equivalent to criminal proceeds will detect the start of investigation and dispose of the assets, the judge may prohibit the disposition of the assets upon the request of judicial police officers, etc. even before institution of prosecution for a period of 30 days or less (the period may be renewed upon the request of the prosecutor). Regarding the restraining order for collection of equivalent value, there is a similar provision to that regarding the restraining order for confiscation. (However, only the pros-

ecutor can request a temporary restraining order before institution of prosecution.)

## **Paragraph 2 Anti-Drug Special Provisions Law**

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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.

### **1. Punishment of Money Laundering (Articles 6 and 7)**

The Anti-Drug Special Provisions Law criminalize the acts of disguising facts with respect to the acquisition or disposition of drug-related criminal proceeds and concealing and receiving such proceeds as money laundering.

### **2. Confiscation, Collection of Equivalent Value and Preservation Measures (Articles 11 through 13, 19 and 20)**

Drug-related criminal proceeds shall be confiscated or the equivalent value thereto shall be collected. The system of confiscation and collection of equivalent value provided in this law is mandatory in principle whereas the system provided in the Act on Punishment of Organized Crimes is discretionary.

Regarding the restraining orders for confiscation and collection of equivalent value, there are provisions similar to those under the Act on Punishment of Organized Crimes.

# Chapter 3

## Efforts of Specified Business Operators and Administrative Authorities to Promote Countermeasures against Money Laundering and Terrorist Financing

In order to effectively implement countermeasures against money laundering, it is critical that every obligation imposed on specified business operators is properly enforced. For this purpose, robust efforts have been made at the private sector level. JAFIC is working together with relevant competent ministries on providing various outreach programs to support their own efforts by organizing an AML/CFT workshop and posting the latest information on the website. Importantly, JAFIC would, when there is non-compliance, exercise its supervisory power over the non-compliance in stating its opinion to the supervising administrative authority to take appropriate measures such as issuing a rectification order against the specified business operators (except for lawyers) concerned.

### Section 1 Efforts of Specified Business Operators

#### 1. Banking Industry

The Japanese Bankers Association (hereinafter referred to as “JBA”) established the Working Committee on Money Laundering Issues and has been taking AML/CFT measures, such as preparing and providing notices on items to keep in mind regarding CDD and STR filing, preparing and distributing seminar handbooks to members, giving seminars for its members, and so on. Furthermore, the JBA prepares leaflets, posters or the like and carries out PR activities using TVs, newspapers or other mass media to inform customers of CDD measures for bank transactions. In addition, the JBA is promoting organizational measures on issues related to ML/TF inside or outside of Japan by following, at all times, the development of AML/CFT measures at the FATF, exchanging and sharing information constantly with foreign bankers associations or the like, making responses to the FATF’s mutual evaluations of Japan, and so forth. The JBA has been playing a leading part in the efforts of the banking industry, with “Code of Conduct,” which provides matters on compliance with laws or regulations including the prevention of ML/TF and confrontation with anti-social forces, and has prompted its members to put such into practice. In April 2018, the Public-Private AML Committee was established to ensure regular information sharing and stronger cooperation between the two sectors. Moreover, the JBA established the AML/CFT Support Office in November 2018 to provide further support for its member banks regarding AML/CFT efforts.

## **2. Shinkin Banks (Credit Unions)**

The National Association of Shinkin Banks established the Shinkin Banks Action Program (re-named from the Shinkin Banks Ethics Program in 2005), under which it is aiming for “strict observance with laws, regulations and rules” and the “severance of relationships with anti-social forces and countermeasures for terrorism and other threats,” representing efforts to observe laws and regulations related to the prevention of money laundering and to eliminate transactions made by Boryokudan and other anti-social forces.

On the issue of countermeasures against money laundering, the Association has compiled a guidebook titled “AML Handbook for Blocking ML at the Tellers of Shinkin Banks” in March 2018 in order to provide tellers with correct knowledge concerning the Act and distributed the guidebook as a study material for a seminar on how to conduct CDD and report suspicious transactions. In addition, the Association is raising members’ awareness, through documents about the outline and expected responses concerning the partial amendment of the Act on Prevention of Transfer of Criminal Proceeds.

## **3. Labor Bank Industry**

The National Association of Labor Banks has been making efforts for individual labor banks to take appropriate AML/CFT measures based on the guideline established in 2014 as a basic rule to integrate the labor bank industry. Regarding to the measures taken by individual labor banks, The National Association of Labor Banks established the action program for CDD measures and announcement of the public statement issued by FATF.

In July 2018, the board members of the National Association of Labor Banks adopted the guidelines for AML/CFT measures for labor banks. Based on these guidelines, individual labor banks developed their AML/CFT policies and risk management plans by September 2018. In this regard, the AML/CFT measures are promoted in a cross-sectional way.

As part of such efforts, the labor banks have been working on revising various transactions and services they deal with to check if there are any ML or other risks. If any such risks were found, the relevant countermeasures are revised to improve their effectiveness against the risks. The revised measures are reflected on relevant bank rules and training programs as needed to ensure that all board members and employees are familiar with the revised measures. The labor banks are also working on public awareness by distributing leaflets about the prohibition of purchase and sale of bank accounts. The labor banks have been promoting strict AML/CFT measures continuously through these efforts.

## **4. Credit Cooperatives**

To ensure AML/CFT measures across all credit cooperatives, the National Central Society of Credit Cooperatives (NCSCC) continued its efforts in 2018 to prepare its members against ML/TF risks, such as disseminating the public statements issued by FATF and amended list of parties subject to asset freezing (including those relating to the Taliban) and compiling and providing examples of CDD and STR-reporting procedures and employee training materials. Furthermore, NCSCC continuously prepares posters and leaflets to inform customers of CDD procedures and makes them available at its member credit cooperatives and distrib-

utes them to the member credit cooperatives. In 2014, reacting to the partial amendment of the Act on Prevention of Transfer of Criminal Proceeds, NCSCC announced the amendment to the member credit cooperatives and held briefing sessions to explain the importance of assessment of ML/TF risks. It also revised the formats for the “documents prepared by specified business operators” as provided in Article 32, paragraph 1, item 1 of the Ordinance for Implementation of the Act on Prevention of Transfer of Criminal Proceeds. In 2018, NCSCC held briefing sessions to explain the importance of establishing AML/CFT policies and distributed re-revised format of said documents to NCSCC member cooperatives in order to promote adequate ML/TF risk mitigation measures.

### **5. Agricultural Cooperatives and Fishery Cooperatives**

Regarding the prevention of ML/TF, agricultural cooperatives and fishery cooperatives have developed administrative procedures related to the implementation of CDD at the time of transactions, STR reporting, etc. based on the Act on Prevention of Transfer of Criminal Proceeds and hold briefing sessions and training sessions for staff members. In addition, they make and issue posters intended to raise members’ and users’ awareness about the CDD at the time of transactions. Following the announcement of the Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism issued by the Financial Services Agency (FSA) in February 2018, the agricultural cooperatives and fishery cooperatives have made further efforts to enhance their AML/CFT measures, such as adopting a risk-based approach and revising their formats for the “documents prepared by specified business operators” as provided in Article 32, paragraph 1, item 1 of the Ordinance for Implementation of the Act on Prevention of Transfer of Criminal Proceeds.

### **6. Life Insurance Industry**

The Life Insurance Association of Japan (LIAJ) works to ensure appropriate AML/CFT measures by its members by incorporating AML/CFT and anti-social forces policies in its Code of Conduct. LIAJ supports its members’ AML/CFT efforts by such means as distributing posters regarding CDD and the AML/CFT Handbook. Furthermore, with a view to enhancing the quality of the risk-based AML/CFT measures conducted by its member companies, LIAJ established the AML/CFT Measures Project Team as a platform for AML/CFT personnel to share information and opinions with each other.

At the meetings of the Project Team held in 2018, the members worked together toward the enhancement of AML/CFT measures for the entire life insurance industry through such efforts as sharing best practices regarding ML/TF risks, and developing training materials for independent agents and distributing them to LIAJ member companies.

### **7. Non-Life Insurance Industry**

In the non-life insurance industry, countering ML/TF, CDD procedures have been implemented for savings-type insurance contracts and large cash transactions with high ML/TF risks. The General Insurance Association of Japan (GIAJ) has actively worked to ensure adequate CDD procedures across the industry through such efforts as developing the guidelines for

CDD procedures, creating posters, and issuing letters to independent agents, which are the main sales channels of non-life insurance companies.

The GIAJ also revised the Administrative Reference Materials for its members, in order to ensure standardized and comprehensive CDD procedures and recordkeeping in the industry, reacting to the partial amendment of the Act on Prevention of Transfer of Criminal Proceeds. It has also updated the information about CDD, etc. on its website and customer leaflets.

In April 2018, the GIAJ established a project team, which serves as a platform for its members to share information and opinions regarding ML/TF.

## **8. Securities Industry**

In order to ensure effective STR, the Japan Securities Dealers Association (JSDA) has stressed the need for stronger AML/CFT measures and prompt STR reporting by issuing “The STR Guidelines for the JSDA Members”, etc.

At the practical level, relevant organizations such as securities companies, JSDA, 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 anti-social forces from the industry and of the prevention of ML/TF through information exchange at the field level or in seminars.

Additionally, JSDA established the Securities Safety Measures Support Center in March 2009. It was registered as an organization for management of information on unjust demands based on the Act on Prevention of Unjust Acts by Organized Crime Group Members, by the National Public Safety Commission/the National Police Agency. The Center checks customers’ involvement with antisocial groups upon members’ requests, using its verification system connected with the National Police Agency’s database.

In terms of systems and regulations, JSDA has established the Rules Regarding the Severance of Relationships with Antisocial Forces and revised the FAQ Concerning the Act on Prevention of Transfer of Criminal Proceeds and Related Cabinet Orders and Ministerial Ordinances and the STR Guidelines for the JSDA Members. Through such efforts, JSDA ensures that its members are familiar with the rules and procedures that have been revised following the amendments of the law.

Following the announcement of the Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism by the Financial Services Agency in February 2018, the JSDA issued in June 2018 a document titled “Practical Procedures and Notes Regarding the FSA Guidelines for Financial Instruments Business Operators: Approaches to AML/CFT Measures,” which describes case examples and matters that require special attention regarding day-to-day operation of financial instrument business (especially securities-related business) by JSDA members. This document has contributed greatly to AML/CFT measures in the securities industry.

## **9. Moneylending Industry**

In order to prevent ML/TF and damages caused by anti-social forces, the Japan Financial

Services Association (JFSA) implements self-regulation rules, which require its members to incorporate AML/CFT provisions in their internal rules, which serve as the pillars of AML/CFT structures of JFSA members. The JFSA also provides the guidelines for internal rules development as well as model internal rules to exemplify the matters that should be included in the members' internal rules (hereinafter referred to as the "Guidelines for Internal Rules Development"). In addition, the JFSA has reviewed the internal rules of all members and provided instructions for improvement as necessary.

In addition, the JFSA also notes information on preventing ML/TF and damage caused by anti-social forces on the JFSA's website in order to familiarize association members with these issues.

The JFSA conducts inspections on both document-based and onsite-based. The JFSA audits member company compliance by assessing how well internal systems are established based on the internal rules about preventive measures against the damages caused by money laundering, terrorist financing, and anti-social forces".

Following the full enforcement of the amendment of the Act on Prevention of Transfer of Criminal Proceeds and the amendment of the FSA's supervising policies in 2014, the JFSA revised and publicized its self-regulation rules in 2015.

In response to the establishment of the FSA Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism and the following amendment of the FSA's supervising policies, the JFSA worked toward the revision of its self-regulation rules and carried out comprehensive reviews of its members' internal rules in 2017. The JFSA also worked to enhance the system to prevent ML/TF and damages from antisocial groups in the moneylending industry in 2018, too, through such efforts as revising the Guidelines for Internal Rules Development based on the partial amendment of the Ordinance for Enforcement of Act on Prevention of Transfer of Criminal Proceeds.

## 10. Fund Transfer Industry

The Japan Payment Service Association (JPSA) provides self-regulation rules, which require its members to establish a system to ensure adequate CDD measures and STR reporting, as well as model internal rules. The JPSA revised the self-regulation rules and model internal rules following the amendment of the Act on Prevention of Transfer of Criminal Proceeds, etc. The JPSA has also actively worked to ensure its members understandings of the revised rules.

Other efforts by the JPSA include seminars on the Act on Prevention of Transfer of Criminal Proceeds given by specialists, which aim at enhancing internal management to ensure adequate CDD procedures at the member companies, and publication of the FSA list of persons subject to asset freezing and information on finance-related measures against North Korea, etc. on the member website.

In 2017 and 2018, the JFSA actively worked to help its members enhance the AML/CFT measures in response to the amendment of the Act on Prevention of Transfer of Criminal Proceeds, the publication of the FSA Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism, and the scheduled fourth round FATF Mutual Evaluation. Specifi-



cally, the JFSA developed and distributed to its members a document explaining FAQ regarding the Act on Prevention of Transfer of Criminal Proceeds and the Foreign Exchange and Foreign Trade Act. Moreover, the JFSA established the Fund Transfer Business Council consisting of fund transfer companies and held seminars and information sharing sessions with specialists and FSA personnel regarding practical risk evaluation and customer management methods.

### **11. Virtual Assets Industry**

The Japan Virtual Currency Exchange Association (JVCEA) was established in March 2018 and registered as a certified association for payment service providers—which is defined under Article 87 of the Payment Services Act (Act No. 59 of 2009)—by the FSA on October 24, 2018.

In accordance with the FSA Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism, the JVCEA developed self-regulation rules titled “Rules and Guidelines for AML/CFT Measures.” Just after the approval of said Rules and Guidelines, the JVCEA enforced and published a set of self-regulation rules, including the Rules Regarding the Severance of Relationships with Antisocial Forces and the abovementioned Rules and Guidelines. Also, in response to the virtual assets-related items in the FATF Recommendations, the JVCEA has promoted various efforts with the utmost priority on the enhancement of AML/CFT measures in the industry. Specifically, the JVCEA has carried out reviews and consultations based on its self-regulation rules, which aimed to help the enhancement of the members’ systems and capabilities concerning CDD and STR reporting, and risk-based approaches. In addition, it also holds regular information sharing meetings for the members and relevant authorities.

### **12. Leasing Industry**

The Japan Leasing Association (JLA) issues and distributes educational pamphlets regarding the Act on Prevention of Transfer of Criminal Proceeds for leasing customers. In 2014, following the partial amendment of the Act on Prevention of Transfer of Criminal Proceeds, JLA issued educational pamphlets and these pamphlets and other related documents are also uploaded on the JLA’s website to enhance the awareness of the Act on Prevention of Transfer of Criminal Proceeds.

The JLA continued to hold an annual training program (advanced course) which includes the training session on the Act on Prevention of the Transfer of Criminal Proceeds in 2018 as well for leasing company managers and other relevant people.

### **13. Credit Industry**

The Japan Consumer Credit Association (JCA) has incorporated items on CDD and on STR reporting based on the Act on Prevention of Transfer of Criminal Proceeds into its comprehensive credit purchase regulations, requiring its member companies to comply with them. In 2016, the JCA held a briefing session concerning the Act on Prevention of Transfer of Criminal Proceeds, amended in 2014. It also developed and announced guidelines for preparing

documents to be prepared by the specified business operators set forth in Article 32, paragraph 1, item 1 of the Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds, and sample forms to effectively comply with the relevant laws.

In response to the enforcement of the amendment of the Act on Prevention of Transfer of Criminal Proceeds, and the revision of the Ministry of Economy, Trade and Industry's "Basic Policy for Supervision under the Installment Sales Act (for deferred payment)", JCA has disseminated the details of these revisions to its members.

Moreover, the JCA worked to ensure that its members understand the amended Ordinance for Enforcement of Act on Prevention of Transfer of Criminal Proceeds (amended in November 2018) and carried out seminars for some members.

#### **14. 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 Act on Prevention of Transfer of Criminal Proceeds, through efforts such as letting the whole industry reaching agreement to the development of system controlling the implementation of CDD measures, etc. and having the responsible officer for the operation of the system within relevant business operators, and preparing and distributing brochures etc. for the purpose of enlightenment.

Following the partial amendment of the Act on Prevention of Transfer of Criminal Proceeds in 2014, the Council has updated its handbook for real estate agents and enhanced its FAQ section concerning the outline and implementation of the amended Act.

In addition, the Council invited lawyers and other experts as lecturers and held briefing sessions for members to have them understand actions to be taken in response to the amendment of the Act.

In May 2018, real estate industry groups collaborated with the Ministry of Land, Infrastructure, Transport and Tourism in carrying out a questionnaire survey to identify the status of AML/CFT measures in the industry. The results were reported to the Compliance Committee of the industry groups and shared with the group members to ensure compliance with the Act on Prevention of Transfer of Criminal Proceeds. The industry groups also held seminars on STR reporting, while also joining the meetings of the Anti-Organized Crime Council held by Prefectural Governments for information exchange.

#### **15. Jewelers and Precious Metals Industry**

The Japan Jewellery Association (JJA) opened a special web page regarding the Act on Prevention of Transfer of Criminal Proceeds on its website in August 2018, in order to raise awareness for the legal system among consumers and business operators in the industry. The JJA distributes leaflets explaining the outline of the Act and the obligations of business operators provided under the law, while also holding briefings on AML measures for jewelry dealers.

The Japan Re-Jewelry Council requires applicants for the qualification of remodel counselors, which is granted to those with advanced jewelry remodeling skills, to have the knowledge concerning the Act on Prevention of Transfer of Criminal Proceeds.

This year, the Japan Gold Metal Association (JGMA) continued to work on raising its members' awareness regarding the Act on Prevention of Transfer of Criminal Proceeds by developing industrial rules and holding regular seminars. In the abovementioned industrial rules, the JGMA requires its members to strictly check import documents when purchasing gold bullion brought into Japan from overseas. The rules are published on the JGMA website to make sure that they are widely known to the entities in the industry. The JGMA has also distributed posters, etc. to raise awareness for the legal system among consumers and businesses in the industry.

### **16. Secondhand Goods Dealers and Pawnbrokers**

In 2018, the Tokyo Federation of Secondhand Goods Dealers for Crime Prevention and the Japan Reuse Affairs Association continued to work on raising their members' awareness regarding AML/CFT measures, such as distributing their Handbook to the members, etc., which explains the obligations under the Act on Prevention of Transfer of Criminal Proceeds that dealers must comply with when trading precious metals.

In 2018, the Japan Ticket Association continued to work on raising its members' awareness regarding AML/CFT measures by distributing a manual explaining the obligations under the Act on Prevention of Transfer of Criminal Proceeds, which are related to precious metal trading.

In 2018, the Tokyo Pawn-Shop Cooperative continued to work on raising its members' awareness concerning the Act on Prevention of Transfer of Criminal Proceeds by distributing leaflets describing the outline of the Act and the obligations of specified business operators under the law, etc.

### **17. Bar Associations**

The Japan Federation of Bar Associations (JFBA) has worked on promoting AML/CFT measures in the context of legal services, with an awareness of the importance of the AML/CFT aspect to the industry. As part of such efforts, the JFBA developed the CDD and Record-keeping Rules and Regulations. These Rules and Regulations require lawyers to conduct CDD and preserve records for certain legal services, and refrain from accepting requests whenever there is a risk of transfer of criminal proceeds. The Regulations and Rules came into effect in March 2013. The Guidelines and Rules were partially revised following the partial amendment of the Act on Prevention of Transfer of Criminal Proceeds in 2014. JFBA revised the Rule on December 2015 and the Regulations on January 2016. The revised Rules and Regulations came into force on October 1, 2016.

In December 2017, the Rules and Regulations were partially amended upon a resolution of special assembly and a resolution of the JFBA board respectively, in order to add (i) a provision that requires members to submit annual reports so that the JFBA can check its members' compliance with the obligations under the Rules and Regulations, including the CDD and recordkeeping obligations, and (ii) a provision that grants the JFBA an authority to re-

quire its members to take improvement measures as necessary to ensure their compliance with the obligations. The revised Rules and Regulations entered into force on January 1, 2018.

The JFBA also performs the following activities to raise awareness of the members, etc. about its efforts made for taking measures to handle money laundering, as well as the details of the Rules and Regulations.

As reference materials concerning the Rules and Regulations, instruction manuals, e-learning programs, pamphlets, CDD checklists, and recordkeeping formats are published on the JFBA's website and the members-only website. The JFBA has also informed bar associations across the nation of the publication of these materials.

In "Jiyū to Seigi," an institutional magazine distributed to all JFBA members, the JFBA regularly included articles regarding the Rules and Regulations, AML/CFT measures in the context of legal services, etc. with a view to raise awareness (issues from August to December 2018). In addition, the JFBA Newspaper, Committee News, and Fax News have also regularly included articles on AML/CFT measures (January, March to June, October 2018).

For training members, the "Risk Based Approach Guidance for Legal Professionals" (published in October 2008) and "Money Laundering and Terrorist Financing Vulnerabilities of Legal Professionals" (published in June 2013), which were formulated and published by the FATF, were translated and posted on the members-only website. In addition, the JFBA provides educational materials to bar associations across the country. Bar associations hold seminars using these educational materials, etc. on the occasion of twice-yearly training sessions for new lawyers and ethics training sessions.

The JFBA held liaison meetings in February, June, and November 2018, convening the representatives of bar associations across the country.

### **18. Shiho-Shoshi Lawyers' Associations**

The Japan Federation of Shiho-Shoshi Lawyer's Associations (JFSLA) has worked on AML/CFT measures required in the context of shiho-shoshi services. As part of such efforts, the JFSLA partially amended its CDD and Recordkeeping Standards for Shiho-Shoshi Lawyers, and established the CDD Rules and the Guidelines for Shiho-Shoshi Services in Relation to the Prevention of Transfer of Criminal Proceeds. The JFSLA has also worked to ensure that its member shiho-shoshi lawyers become familiar to the rules regarding CDD procedures and recordkeeping in relation to the services they provide, as well as AML/CFT measures.

In "Geppo Shiho-Shoshi," a monthly magazine distributed to all JFSLA members, the JFSLA included an article every month from September 2018 to explain AML/CFT measures for shiho-shoshi lawyers, risks that shiho-shoshi services are used for ML/TF, and administrative systems that shiho-shoshi lawyers can adopt to avert such risks in order to raise awareness of all the JFSLA members.

In addition, the JFSLA, the eight Regional Shiho-Shoshi Lawyer's Associations, and other Shiho-Shoshi Lawyer's Associations hold training sessions regarding CDD procedures as a duty of shiho-shoshi lawyers, as well as the CDD and recordkeeping obligations under the Act on Prevention of the Transfer of Criminal Proceeds.

The JFSLA also carried out a questionnaire survey in October 2018 with all the shiho-shoshi lawyers' associations and JFSLA members across the country regarding AML/CFT measures.

From October to December 2018, the Regional Shiho-Shoshi Lawyer's Associations held briefing sessions for the representatives of shiho-shoshi lawyers' associations to explain AML/CFT measures required of individual associations and shiho-shoshi lawyers.

Since 2014, the JFSLA has invited officials from the National Police Agency as lecturers and held seminars regarding the Act on Prevention of Transfer of Criminal Proceeds and AML/CFT measures.

### **19. Association of Certified Administrative Procedures Specialists**

To facilitate implementation of the obligations under the Act on Prevention of Transfer of Criminal Proceeds, the Japan Federation of Certified Administrative Procedures Specialists Associations 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 January 2014, the Association also partially revised the "Ethics of Certified Administrative Procedures Specialists," which specifies the basic approach to the performance of the duties of certified administrative procedures specialists and to add a provision concerning CDD.

In response to the full enforcement of the partially amendment of the Act on Prevention of Transfer of Criminal Proceeds in 2014, the Association revised and published the new version of the abovementioned Handbook in March 2017, and has been continuously providing related information on its website in order to raise awareness of all members.

In 2018, the Association and prefectural associations of certified administrative procedures specialists continued to work on raising awareness regarding the CDD and recordkeeping on such CDD and transactions, as well as regarding the development of account books related to business operations specified by the Administrative Scrivener Act, via freshman seminars and compliance workshops, in order to ensure compliance with the Act on Prevention of Transfer of Criminal Proceeds.

### **20. Japanese Institute Certified Public Accountants**

The Japanese Institute of Certified Public Accountants (JICPA) disseminates information on AML/CFT in regard to the Act on Prevention of Transfer of Criminal Proceeds through member newsletters and the association website, in order to thoroughly familiarize members with these issues. The JICPA also periodically conducts a survey on members in order to grasp the status of members' operations and compliance with obligations such as CDD.

In April 2018, the JICPA published a document, which explains AML/CFT measures required for certified public accountants and audit corporations as professionals.

In addition, the JICPA conducts member workshops, in which it provides overviews of the Act on Prevention of Transfer of Criminal Proceeds and AML/CFT.

## Section 2 Collaboration with the Private Sector

### Paragraph 1 National Risk Assessment of Money Laundering and Terrorist Financing

#### 1. Backgrounds

The FATF Recommendations revised in February 2012 (new FATF 40 Recommendations) call on individual countries to identify and assess their own ML/TF risks.

In light of today's situation surrounding CFT measures and the fact that legal persons and legal arrangements are misused for money laundering and tax evasion due to the lack of transparency over their ownership and management structures, the G8 leaders who gathered at the Lough Erne Summit in June 2013 agreed on the G8 Action Plan Principles, which require the G8 members to assess the risks surrounding their AML/CFT measures and implement proportionate measures countering to such risks.

Japan formulated the national action plan in the same month to establish an inter-ministerial working team consisting of the Financial Service Agency and other relevant ministries and agencies under the chair of the National Police Agency and conduct the national risk assessment. Based on this national action plan, relevant ministries and agencies published the "National Risk Assessment of Money Laundering and Terrorist Financing" in December 2014.

Furthermore, through the partial amendment of the Act on Prevention of Transfer of Criminal Proceeds in 2014, the National Public Safety Commission has been required to prepare and publish the National Risk Assessment Report every year since 2015, and in December 2018, the Commission published the report for 2018.

#### 2. Purpose

The national risk assessment (NRA) identifies and evaluates risks that transactions carried out by a specified business operators are used for ML/TF. It provides the foundation for the effective and efficient implementation of risk-based AML/CFT measures by specified business operators.

#### 3. Overview of National Risk Assessment Report

The National Risk Assessment Report published in December 2018 evaluates risks in a comprehensive and multi-faceted manner based on the analysis of risks of transactions to be misused for ML/TF, statistics about STR, examples of misused cases, and risk mitigation measures taken by specified business operators, in relation to the following factors:

- Factors related to products and services
  - Transactions related to deposit and savings accounts, virtual assets, jewelry and precious metals, telephone forwarding service providers, etc.
- Factors related to transaction type

Non-face-to-face transactions, cash transactions, international transactions, etc.

○Factors related to countries and jurisdictions

Countries and jurisdictions indicated in the public statement issued by FATF as deficient on measures against ML/TF

○Factors related to customers

Anti-social forces, international terrorists, non-residents, etc.

The National Risk Assessment Report is available on JAFIC's website.

## **Paragraph 2 Measures for Specified Business Operators, etc. taken in 2018**

Competent administrative agencies have taken various measures for specified business operators under their supervision (see the NRA). This paragraph mainly explains those taken by the National Police Agency (NPA).

### **1. Seminars, etc.**

(1) For financial institutions, etc.

○In March 2018, NPA officials joined a seminar for futures commission merchant brokers in Tokyo and explained the outline of the Act on Prevention of Transfer of Criminal Proceeds, etc.

○In May 2018, the Ministry of Agriculture, Forestry and Fisheries (MAFF) held a training seminar for prefectural government employees regarding supervision of agricultural cooperatives. NPA officer also joined this seminar to explain the current situation and challenges surrounding AML/CFT measures.

○From October to November 2018, the FSA and NPA jointly held 14 seminars on STR for banks and financial institutions and explained best practices and things to pay attention to regarding STR reporting.

○In 2018, the Ministry of Finance (MOF) dispatched its officials to nine seminars for money changers held by the Japan Ticket Association, the Japan Association of Travel Agents, the Japan Department Stores Association, and the Japan Oceangoing Passenger Ship Association. The dispatched officials explained the obligations under the Act on Prevention of Transfer of Criminal Proceeds in the context of money exchange business.

(2) For Building lots and buildings transaction business operator

The Ministry of Land, Infrastructure, Transport and Tourism (MLIT) dispatched its officials to the meetings of the Compliance Committee of real estate industry groups held in June, August, and October 2018. The dispatched officials explained things to pay attention to regarding STR under the Act on Prevention of Transfer of Criminal Proceeds.

(3) For jewelry and precious metal dealers

○In July 2018, Ministry of Economy, Trade and Industry (METI) officials, with MOF officials, explained compliance matters under the Act on Prevention of Transfer of Criminal Proceeds at a seminar for department stores across Japan held by the Japan Department Stores Association in Tokyo and a seminar for the members of the Japan Gold Metal As-



sociation in August 2018 also in Tokyo. In September 2018, the Kyushu Bureau of Economy, Trade, and Industry held a seminar for local gold bullion traders. NPA and MOF officials joined this seminar to explain the current situation of gold smuggling.

In February and August 2018, the METI and the Japan Jewellery Association jointly held a seminar for jewelry dealers in Tokyo. At this seminar, METI and NPA officials explained compliance matters under the Act on Prevention of Transfer of Criminal Proceeds.

The METI accepts inquiries from business operators by phone. In addition, it also started to accept inquiries by email from 2017.

○NPA officials joined a seminar for ticket dealers held by the Japan Ticket Association in Tokyo in October 2018 to explain the obligations under the Act on Prevention of Transfer of Criminal Proceeds in the context of second-hand shop business.

NPA officials also joined a seminar for pawnbrokers held by the Nationwide Pawnbroker Union Alliance Society in Tokyo in October 2018 to explain the obligations under the Act on Prevention of Transfer of Criminal Proceeds in the context of pawnbroker business.

#### (4) For shiho-shoshi lawyers

The NPA dispatched its officials to two seminars for shiho-shoshi lawyers held by the Japan Federation of Shiho-Shoshi Lawyers in different places in April and December 2018 to explain the outline of the Act on Prevention of Transfer of Criminal Proceeds, etc.

## 2. Visits to Specified Business Operators

In 2018, the NPA visited 63 banks and financial institutions across the country (including two virtual assets exchange service providers) and six credit card companies to explain matters to pay attention to regarding STR reporting.

## 3. Publication of Guidelines, etc.

### (1) Publications for financial institutions, etc.

In February 2018, the Financial Services Agency (FSA) published the Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism, which explains the basic principles for ML/TF risk management, with a view to promoting the development of effective AML/CFT measures at financial institutions. In August 2018, the FSA published a document titled "The Current Situation and Challenges Regarding AML/CFT Measures," which summarizes measures taken by the FSA and efforts of supervised financial institutions after the enforcement of the abovementioned Guidelines.

### (2) Publication of reference cases of suspicious transactions

Relevant ministries and agencies published reference cases of suspicious transactions that specified business operators should pay extra attention to and for which they must comply with the STR reporting obligation.

## 4. Other Measures

### (1) Measures for telephone receiving/telephone forwarding service companies

In October 2018, the Ministry of Internal Affairs and Communications sent a document describing the outline of the Act on Prevention of Transfer of Criminal Proceeds and CDD mat-

ters to telephone receiving/telephone forwarding service providers companies to improve their understanding regarding information that they need to identify and keep the records as specified business operators.

(2) Calling for Actions by Specified Business Operators upon the Adoption of the United Nations Security Council Resolutions

When the United Nations Security Council adopts a resolution requiring countries to freeze the funds or other assets related to any persons or entities in order to prevent and suppress terrorism and terrorist financing, the National Police Agency, in cooperation with relevant Ministries and Agencies, shall disseminate the content to specified business operators (excluding lawyers, shiho-shoshi lawyers, certified administrative procedures specialists, certified public accountants and tax accountants) and request the thorough CDD and STR reporting on persons or entities subject to the resolutions concerned. And, the targeted persons or entities are listed on the website of JAFIC.

(3) PR through the NPA website

The NPA website has a dedicated web page for the Japan Financial Intelligence Center (JAFIC), in which the annual reports, updates on JAFIC's activities, and the content of the Act on Prevention of Transfer of Criminal Proceeds are published.

- NPA Website  
<http://www.npa.go.jp>
- JAFIC Website  
<http://www.npa.go.jp/sosikihanzai/jafic/index.htm>

JAFIC Annual Report



Poster

平成28年10月1日施行  
改正 犯罪収益移転防止法

顔写真のない本人確認書類は？  
マネー・ローンダリング、テロ資金供与防止のため  
“取引時の確認方法”等が改正されます。  
ご協力、お願いします。

2種類提示を  
してもらつなどの  
対応が必要です！

① “顔写真のない”本人確認書類  
について  
健康保険証 国民年金手帳 児童扶養手当証書 電子住民票等  
「健康保険証」等の顔写真のない本人確認書類を使用する場合は、提示に加え、その他の書類の提示を行うなど、追加の対応が必要です。

② 法人の“実質的支配者”について  
“議決権の保有その他の手段”により、当該法人を支配する「自然人」まで遡って確認します。

③ 法人の“取引担当者の確認”  
について  
取引担当者が“正当な取引権限を持っていること”の確認に、「社員証」は使えず委任状等が必要になります。また、「登記事項証明書」は、取引担当者が“代表権を有する場合のみ”使用できます。

また、以下の取引についても改正がありますのでご協力をお願いします。

- ・マネー・ローンダリングの疑いがあると認められる取引その他の種別を行う上で特別の注意を要する取引についても取引時確認が必要となります。
- ・1回あたりの取引の金額を減少させるために、取引を分割したことが一旦して明らかである場合についても取引時確認が必要となります。
- ・外国の重要な公的機関にある者等との取引がハイリスク取引に追加されます。

※ハイリスク取引とはマネー・ローンダリングのリスクが高い取引のことを指します。また、同額が200万円を超える金銭の移転を行う場合には、業務上法人の取引時確認が必要です（改正法第15条第2項第2号）。

警察庁 金融庁 総務省 法務省 財務省 厚生労働省 農林水産省 経済産業省 国土交通省

Leaflet

平成28年10月1日施行  
改正 犯罪収益移転防止法

取引時の確認方法等が一部改正されます。

A 顔写真のない本人確認書類の取扱いが変更されます。

B 法人の実質的支配者について自然人まで遡って確認することが必要です。

C 法人の取引担当者の確認について注意が必要です。

警察庁 金融庁 総務省 法務省 財務省  
厚生労働省 農林水産省 経済産業省 国土交通省

## Section 3 Orders for the Submission of Reports and Opinion Statements in 2018

When suspicion surfaces during the investigation of cases including special fraud cases by the Prefectural Police with regard to the possibility that a specific business operator (excluding lawyers; the same applies in this section) violates the obligation of CDD and other matters prescribed in the Act on Prevention of Transfer of Criminal Proceeds, the National Public Safety Commission/the National Police Agency orders the alleged specified business operators for submission of reports, and make opinion statements to competent administrative authorities.

### 1. Orders for the Submission of Reports and Opinion Statements by the National Public Safety Commission/the National Police Agency

In 2018, the National Public Safety Commission/the National Police Agency ordered 13 telephone forwarding service providers, etc. to submit reports.

As a result, the following misconducts were found.

- Carrying out CDD with clearly forged identification documents.
- Failing to verify the purpose of transaction and customers' occupations, etc.

In addition, based on the submitted reports, the National Public Safety Commission/the National Police Agency sent 11 opinion statements to the Minister of Internal Affairs and Communications and other entities supervising telephone forwarding service providers to request them to take rectification measures for the non-compliance with the Act on Prevention of Transfer of Criminal Proceeds by the end of the year.

No onsite inspections by police officers were performed.

Table 3-1 Number of Supervisory Actions

Category	Year				
	2014	2015	2016	2017	2018
Number of the order for the submission of reports to specified business operators	10	11	9	7	13
Postal receiving service providers	8	9	9	6	0
Telephone forwarding service providers	2	0	0	1	12
Providers of both postal receiving service and telephone forwarding service	0	2	0	0	1
Number of directions to conduct inquiry to prefectural police	5	2	0	0	0
Postal receiving service providers	4	2	0	0	0
Telephone forwarding service providers	1	0	0	0	0
Number of opinion statements made to competent administrative authorities	11	10	8	7	11
Postal receiving service providers	9	8	8	7	2
Telephone forwarding service providers	2	2	0	0	9

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

In 2018, one rectification order was issued by the Minister of Economy, Trade and Industry against a postal receiving service provider based on Opinion Statements issued by the National Public Safety Commission/the National Police Agency thus far.

Table 3-2 Number of Rectification Orders by Competent Administrative Authorities

Category	Year	2014	2015	2016	2017	2018
	Number of rectification orders based on Opinion Statements		3	5	0	1
Postal receiving service providers		3	5	0	1	1

# Chapter 4

## Reports of Suspicious Transactions

The Act on Prevention of Transfer of Criminal Proceeds requires specified business operators to file a report to competent administrative authorities when a transaction is suspected to be related to criminal proceeds (lawyers, shiho-shoshi lawyers, certified administrative procedures specialists, certified public accountants and certified public tax accountants are not subject to this obligation). The Suspicious Transaction Reporting System was specified for the first time under the Anti-Drug Special Provisions Law in light of developments related to international countermeasures against money laundering, etc. As it was later expanded to cover crimes other than drug-related ones, the system was specified under the Act on Punishment of Organized Crimes, and it is now specified under the Act on Prevention of Transfer of Criminal Proceeds.

### 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 the misuse of financial or other services provided by specified business operators and to enhance trust on business activity.

#### 2. Flow of Suspicious Transaction Reporting

Suspicious transactions reported by specified business operators are collected at the Japan Financial Intelligence Center (JAFIC) via their competent administrative authorities. JAFIC collates and analyzes suspicious transaction reports (STRs) to disseminate those deemed useful to investigative authorities such as the Prefectural Police, the Public Prosecutors, etc. for their use.

The investigative authorities utilize STRs for investigations on ML crimes and their predicate offenses and inquiry of irregularities. JAFIC also provide foreign FIUs with information on cross border transactions as necessary, in order to facilitate their analysis or investigation into global scale money laundering.

#### 3. When STRs are Required

Under Article 8 of the Act on Prevention of Transfer of Criminal Proceeds, it is required that specified business operators promptly file an STR with the competent administrative authorities when there is any suspicion that assets they received could be criminal proceeds or that the customer could commit acts that constitute crimes under Article 10 of the Act on



Punishment of Organized Crimes (concealment of criminal proceeds) or Article 6 of the Anti-Drug Special Provisions Law (concealment of drug-related criminal proceeds) with respect to specified businesses affairs.

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

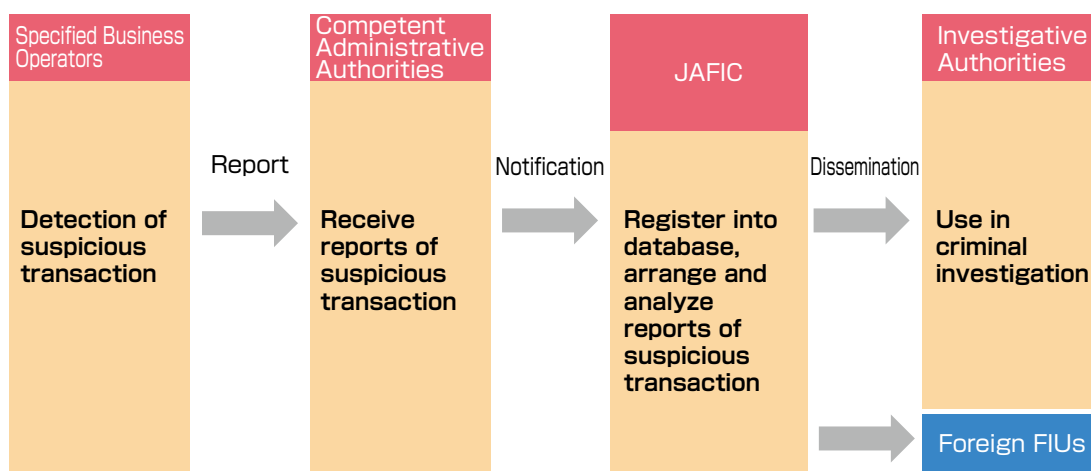
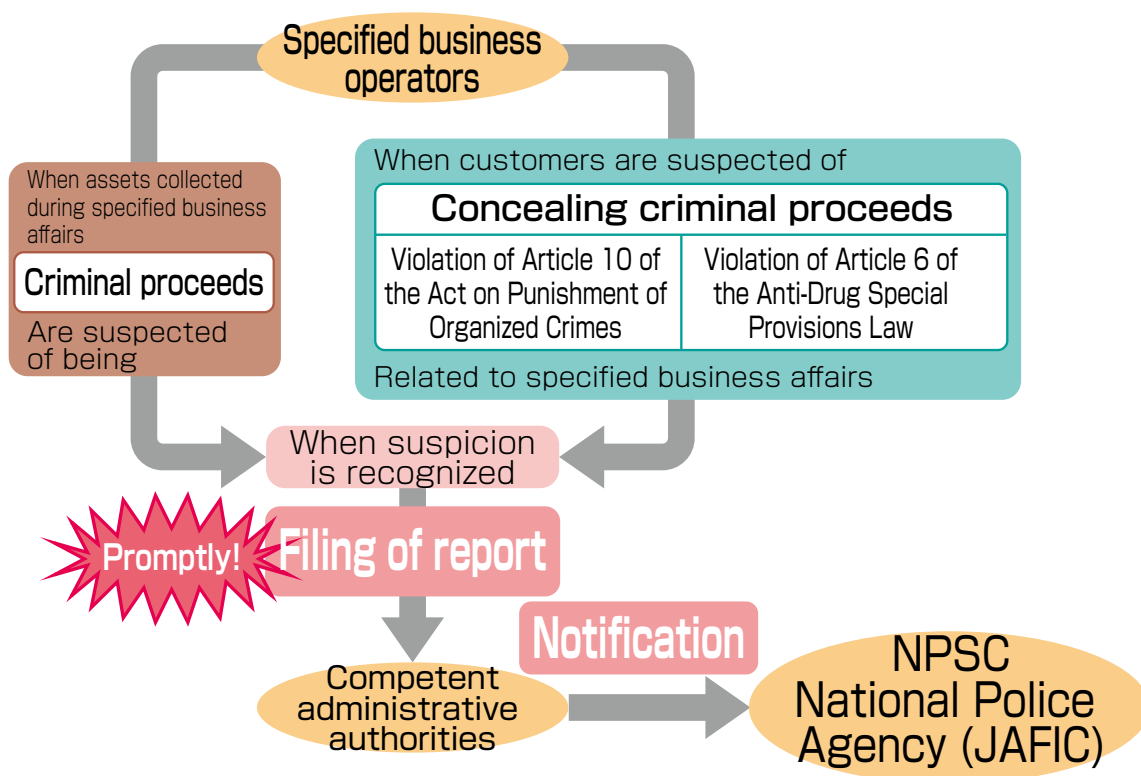


Figure 4-2 Cases where STRs are Required



#### 4. Identification of Suspicious Transactions

Under the Act on Prevention of Transfer of Criminal Proceeds, it is provided that specified business operators are required to determine whether there is any suspicious activity behind the transaction concerned by considering the details of NRA in addition to the results of ver-



ification at the time of transactions, means of transactions and other matters and by the method specified by the ordinance of the competent ministry <sup>(Note)</sup>.

Subject to the provision mentioned in the preceding sentence, specified business operators should, based on their own knowledge and experience in their particular field of operations, determine the nature of transactions or types of customers and whether the transactions are suspected of being related to ML/TF. However, not all of them identify ML/TF risks in every transaction and they may find it difficult to make an appropriate determination. Therefore, competent administrative authorities that supervise specified business operators have announced "reference cases of suspicious transactions," based on the characteristics of respective transactions conducted by specified business operators. These cases are provided as a reference to help specified business operators find or identify suspicious transactions in their day-to-day operations. Although all of the transactions that appear to match the listed samples in the reference cases do not necessarily have to be reported as STRs, any transaction that specified business operators determine as should be reported as STRs.

Note: Methods, etc. of verification whether there is a suspicion of ML through comparison of the nature of transactions with those of usual transactions, comparison with past transactions with the same customer, and checking of the consistency with the content verified at the time of transactions, etc.

## Section 2 Situation of STR Filings in 2018

### 1. Transition of the Number of STR Filings

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. However, since the enactment of the Act on Punishment of Organized Crimes in 1999, crimes subject to suspicious transaction reports were extended beyond drug-related crimes to include other serious crimes as specified by the Act. Since the enforcement of the Act in 2000, the number of reports has increased every year, and has kept increasing trend since the partial enforcement of the Act on Prevention of Transfer of Criminal Proceeds in 2007. The number of reports received in 2018 was 417,465, increasing by 17,422 (4.3%) from the previous year.

As a possible underlying factor of this trend, the following can be raised.

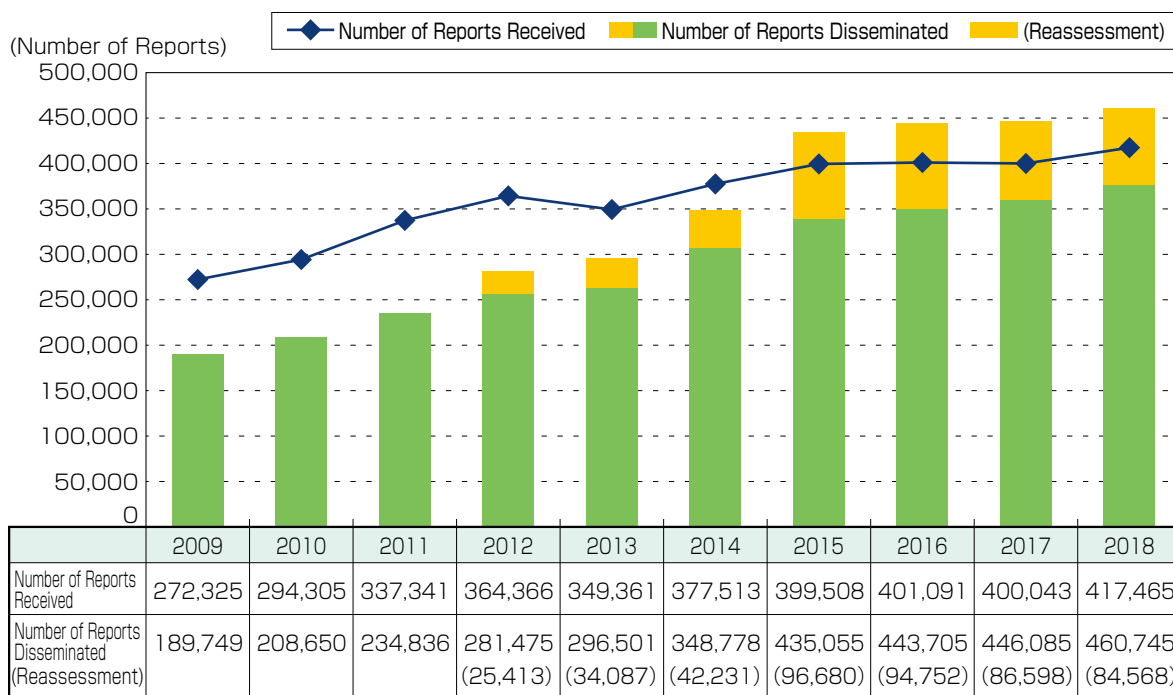
- Spreading compliance culture among the general public has encouraged financial institutions' efforts to apply stringent monitoring over their measures against anti-social forces and illegal money transfers.
- The effect of education on the necessity of reporting suspicious transactions, via seminars, etc. held for financial institutions, etc.

In particular, financial institutions with larger submission of STRs are improving the capacities to identify the suspicious transactions by increasing the number of personnel in charge of money laundering countermeasures and introducing the IT system to identify suspicious transactions. They identify, monitor and analyze the suspicious transactions with regard to

the respective transactions and promoting training programs for their employees by holding training sessions, etc. to enhance the capabilities of their employees.

The number of STRs deleted in 2018 was 5,627 and the number of STRs stored as of the end of 2018 was 4,371,214.

Figure 4-3 Trend Diagram of Number of STRs (2009-2018)



Note 1: "Number of Reports Received" is the number of the reports received by JAFIC.

Note 2: "Number of Reports Disseminated" is the number of STRs that the JAFIC disseminated to investigative authorities etc.

Note 3: The number of reassessed cases refers to the number of cases concerning which it was judged that information that had been withheld from dissemination for such reasons as that the information is relating to a case under investigation could be disseminated as a result of the review and analysis of the information (data collection of the number of reassessed cases started in 2012).

## 2. Number of Received Reports by Business Types

The number of suspicious transaction reports that each category of business operators filed in 2018 is shown in Table 4-1. Banks etc. have the highest number of reports with 346,014, or 82.9% of all reports, followed by credit card operators (15,114, or 3.6%) and Shinkin banks and credit cooperatives (14,375, or 3.4%) (See Table 4-1).

Table 4-1 Number of Received STRs by Each Business Type

Category	Year	2014	2015	2016	2017	2018
		Number of reports	Number of reports	Number of reports	Number of reports	Number of reports
Financial Institutions etc.		366,779	385,639	387,399	384,331	401,155
Depository Institutions		349,204	366,965	369,936	363,347	363,380
Banks etc.		332,443	351,009	354,346	346,595	346,014
Shinkin Banks and Credit Cooperative		15,018	13,188	13,070	13,259	14,375
Labour Banks		298	371	453	476	467
Norinchukin Banks etc.		1,445	2,397	2,067	3,017	2,524
Insurance Companies		3,817	2,918	2,310	2,382	2,671
Financial Instruments Business		7,732	8,951	8,528	8,436	13,345
Money Lending Business		3,349	4,427	5,263	7,512	12,396
Fund Transfer Business Operators		807	585	539	1,282	1,391
Virtual Assets Exchange Service Providers					669	7,096
Futures commission merchant		16	9	16	17	50
Currency Exchanging Operators		1,574	1,633	627	490	649
Electronic Monetary Claim Recording Institutions		0	0	3	4	10
Others		280	151	177	192	167
Financial Leasing Operators		86	160	214	109	222
Credit Card Operators		10,608	13,666	13,436	15,448	15,114
Building lots and buildings transaction business operator		1	9	8	7	8
Dealers in Precious Metals and Stones		5	10	27	146	952
Postal Receiving Service Providers		34	24	6	2	6
Telephone Receiving Service Providers		0	0	1	0	0
Telephone Forwarding Service Providers		0	0	0	0	8
Others		0	0	0	0	0
<b>Total</b>		<b>377,513</b>	<b>399,508</b>	<b>401,091</b>	<b>400,043</b>	<b>417,465</b>

Note: The number of STRs received for virtual assets exchange service providers is the number of STRs received after April 2017.

### 3. Number of Received STRs Classified by Methods

Table 4-2 shows the number of STRs filed by filing method (electronically filing through e-Gov, or filing by other means (for example, sending documents etc. to the competent administrative authorities)).

The National Police Agency will continue working on further prevalence of the online reporting at all opportunities in order to reduce burdens on specified business operators associated with the reporting obligation.

Table 4-2 Number of Received STRs Classified by Method

Method	2014		2015		2016		2017		2018	
	Number of reports	%	Number of reports	%	Number of reports	%	Number of reports	%	Number of reports	%
Electronic Application	295,640	78.3%	366,843	91.8%	387,724	96.7%	391,657	97.9%	410,964	98.4%
Other Methods	81,873	21.7%	32,665	8.2%	13,367	3.3%	8,386	2.1%	6,501	1.6%
<b>Total</b>	<b>377,513</b>	<b>100.0%</b>	<b>399,508</b>	<b>100.0%</b>	<b>401,091</b>	<b>100.0%</b>	<b>400,043</b>	<b>100.0%</b>	<b>417,465</b>	<b>100.0%</b>

## Section 3 Dissemination and Use of STRs in 2018

### Paragraph 1 Dissemination

The NPSC and NPA collect, arrange and analyze all STRs and disseminate STRs which are

useful for investigations of money laundering, predicate offences or other offences to LEAs. The number of STRs disseminated to LEAs has kept growing every year. The number of STRs disseminated to LEAs was 460,745 in 2018 (a record high), an increase of 14,660 (3.3 %) from the previous year. (See figure 4-3)

JAFIC utilize the following information for the analysis of criminal organizations, whose fund raising methods have remarkably diversified in recent years, as well as the analysis of fraud-, illegal stay-, and drug-related crimes:

- Past STRs
- Information accumulated by police officers
- Publicly available information

Moreover, in response to the recent changes in the social situation, JAFIC have enhanced the analysis of virtual assets transactions, which are often misused for ML/TF due to their anonymity, and the analysis of gold smuggling, which violates the Consumption Tax Act and other tax-related laws. JAFIC review the findings from the analysis of various crimes mentioned above in a comprehensive manner, and disseminate the results to LEAs.

The number of analysis reports disseminated to LEAs in 2018 is as shown in Figure 4-3.

**Table 4-3 Number of Analysis Reports Disseminated to LEAs**

	2014	2015	2016	2017	2018
Number of analysis reports disseminated	1,833	2,798	5,381	7,163	8,259

In 2018, there was no request from an investigative authority to view or copy an STR or to have a copy sent to it.

## Paragraph 2 Use of STRs in the Prefectural Police

Prefectural police departments use STRs for the discovery of criminal proceeds, analysis of criminal organizations, and investigations of criminal proceeds-related offenses.

The number of STRs used by prefectural police departments for investigations in 2018 (including the cleared cases that were initiated based on STRs ("STR-initiated cases")) was 314,296 (see Table 4-4).

**Table 4-4 Number of STRs Used for Investigative Purposes**

	2014	2015	2016	2017	2018
Number of STRs used in investigation	243,476	265,346	284,914	429,200	314,296
Number of STRs used in investigation of initiated cases	4,608	6,308	5,961	6,344	6,089

Note : The number of STRs used in investigation of initiated cases shows the number of information (not the number of cases)

The number of cases cleared by prefectural police departments was 1,124 in 2018, an increase of 27 cases (2.5%) from the previous year.

The number of STR-initiated cases by crime category is shown in Table 4-5.

Table 4-5 Number of STR-initiated Cases by Type of Crime

Crime	Year				
	2014	2015	2016	2017	2018
(i) Fraud-related crimes	833	900	925	933	1,004
Violation of Act on Prevention of Transfer of Criminal Proceed	322	397	429	511	636
Fraud	511	503	496	421	366
Computer Fraud	0	0	0	1	2
(ii) Illegal stays	74	68	42	60	26
Violation of Immigration Act	74	68	42	60	26
(iii) Drug crimes	27	38	41	42	42
Violation of Stimulants Control Act	16	31	33	35	34
Violation of Cannabis Control Act	1	0	3	2	6
Violation of Anti-Drug Special Provisions Law	7	3	4	4	2
Violation of Act on Ensuring the Quality, Efficacy and Safety of Drug and Medical devices, etc.	2	4	1	1	0
Violation of Narcotics and Psychotropics Control Act	1	0	0	0	0
(iv) Money laundering offences	16	23	21	17	17
Violation of Organized Crime Punishment Act (concealment of criminal proceeds, etc.)	8	13	16	13	12
Violation of Organized Crime Punishment Act (receipt of criminal proceeds, etc.)	8	10	5	3	5
Violation of Organized Crime Punishment Act (business management control of companies, etc.)	0	0	0	1	0
(v) Counterfeiting crimes	21	27	19	12	7
Forgery of signed public documents	7	8	3	4	3
Illegal preparation and supply of false entries in original electromagnetic notarized deed	10	12	8	4	4
False statement on licenses	4	5	8	3	0
Others	0	2	0	1	0
(vi) Loan sharks	9	6	14	11	8
Violation of Money Lending Business Act	6	4	8	9	7
Violation of Investment Deposit and Interest Rate Act	3	2	6	2	1
(vii) Gambling-related offences	0	2	5	2	1
Habitual gambling	0	0	2	1	1
Operating a gambling site for profit	0	2	2	1	0
Gambling	0	0	1	0	0
(viii) Entertainment business-related offences	0	4	4	4	3
Violation of Amusement Business Act	0	1	2	0	3
Distribution of obscene materials	0	3	2	4	0
(ix) Other criminal offences	6	15	11	8	5
Extortion	1	4	0	1	4
Compulsion	0	1	0	0	1
Theft	4	3	10	7	0
Others	1	7	1	0	0
(x) Other special criminal offences	15	13	9	8	11
Violation of Worker Dispatching Act	2	4	0	0	2
Violation of Act on Prevention of Misuse of Mobile Phones	0	0	1	0	2
Violation of Banking Act	5	4	3	1	1
Violation of Trademark Act	2	1	1	2	1
Violation of Financial Instruments and Exchange Act	0	1	1	1	1
Violation of Copyright Act	2	0	1	0	1
Violation of Inns and Hotels Act	0	0	0	0	1
Violation of Labor Standards Act	0	0	0	0	1
Real Estate Brokerage Act	0	0	0	0	1
Others	4	3	2	4	0
Total	1,001	1,096	1,091	1,097	1,124

Note 1: The violations of the Act on Ensuring the Quality, Efficacy and Safety of Drugs and Medical Devices, etc. in the table include cases in which the predecessor Act before the name change, the Pharmaceutical Affairs Act, was applied).

Note 2: Arrests for multiple crimes are tabulated and counted respectively as an arrest for the crime subject to the severest punishment. Arrests for multiple criminal offences and special criminal offences subject to the same punishment are categorized by criminal offences, and arrests for multiple criminal offences only and those for multiple special criminal offences only are categorized respectively by the major offences. Arrests for violation of the Act on Punishment of Organized Crimes and Control of Crime Proceeds are all tabulated as cases of violation of said Act irrespective of other offences committed simultaneously.

The following describes each type of the violation.

- ( i ) Fraud-related crimes (fraud and violations of the Act on Prevention of Transfer of Criminal Proceeds, etc.) totaled 1,004 cases, the largest number that comprises 89.3% of all cases, which included bank passbook smuggling, fraudulent receipt of welfare benefits and other benefits, and fraud in relation to sale of concert tickets and real estate renting rights.
- ( ii ) Illegal stays (violations of the Immigration Control Act) totaled 26 cases, which included cases of foreign nationals who had overstayed, and who had worked without working qualifications.
- ( iii ) Drug crimes (violation of the Stimulants Control Act and the Anti-Drug Special Provisions Law) totaled 42 cases, which included the possession, assignment and/or receipt, or sale or purchase of illegal drugs by delivery services, etc.
- ( iv ) Money laundering offences (violation of the Act on Punishment of Organized Crimes (concealment and receiving of criminal proceeds) totaled 17 cases, which included concealment and receiving of criminal proceeds obtained through fraud, loan shark, etc.
- ( v ) Counterfeiting crimes (false entries in the original of an electromagnetic notarized deed and use of such deed, use of forged official documents with seal etc.) totaled 7 cases, which included sham marriage and opening of a bank account by us a forged health insurance card, etc.
- ( vi ) Loan sharks (violation of the Money Lending Business Act and the Act Regulating the Receipt of Contributions, Receipt of Deposits and Interest Rates) totaled 8 cases, which included arrests for unregistered money lending business and loan-sharking.
- ( vii ) There was 1 case of gambling-related offence (habitual gambling), in connection with habitual gambling on an online casino.
- ( viii ) There were 3 cases of entertainment business-related offences (violation of Act on Control and Improvement of Amusement Business, etc.), which included the operation of adult entertainment shops in the prohibited areas.
- ( ix ) Other criminal offences (extortion and compulsion) totaled 5 cases, which included extortion demanding protection rackets..
- ( x ) Other special criminal offences (violation of the Worker Dispatching Act, the Copyright Act, etc.) totaled 11 cases, which included dispatching workers for construction jobs for which worker dispatching is prohibited, and for reproducing DVDs without copyright holders' approval and owning the illegal copies for the purpose of selling to many and unspecified people.

### **Paragraph 3 Utilization of Reports by National Investigative Authorities**

#### **1. The Public Prosecutors Offices**

STRs are shared among public prosecutors offices nationwide. They are used for secret investigations, as well as for corroborating statements by offenders and associated parties,

investigating further crimes and accomplices, and finding criminal facts.

STRs are also used for a wide range of activities, including monitoring the flow of funds of Boryokudan and other crime organizations and examining the actual state of organized crime.

## **2. The Narcotics Control Department**

The Health, Labour and Welfare Ministry's Narcotics Control Department utilizes STRs in identifying criminals and transferred criminal proceeds and investigating drug trafficking and other drug-related crimes, by such means as comparing STRs and information obtained from already arrested suspects and secret investigations, etc. and identifying new accounts for drug trafficking from there.

## **3. The Japan Coast Guard**

The Japan Coast Guard utilizes STRs to analyze the relationship with those which are reported to bear a high risk of committing a crime, as well as to promote the prevention of organized smuggling of restricted items and immigrants, thus striving to take thorough frontline measures for preventing such crimes.

## **4. The National Tax Agency**

The National Tax Agency shares information on suspicious transactions with regional tax bureaus nationwide and utilizes the information to investigate tax evasion crimes by analyzing STRs and data on tax declarations retained by the regional tax bureaus.

## **5. Customs**

Customs makes a database of STRs, which is shared between customs offices across the country. STRs can be used for investigations on violation of the Customs Act by such means as comparing them against various types of information obtained by customs offices. By doing so, Customs can identify and cleared a stimulant drug trafficking case, for example. Customs takes strong initiatives to stop smuggling of items that may threaten public safety and security.

## **6. The Securities and Exchange Surveillance Commission (SESC)**

The SESC actively uses STRs, by such means as analyzing and comparing them against information retained by the SESC, in its investigations on misconducts that impair the fairness of the financial market, such as fraudulent securities reports (fraudulent accounting), insider trading, market manipulation, and use of other fraudulent means.



# Chapter 5

## Crackdown on Money Laundering

In order to take effective anti-money laundering 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 (Article 10) and the receipt of criminal proceeds (Article 11) which are all stipulated in the Act on Punishment of Organized Crimes, and also the concealment of drug-related criminal proceeds (Article 6) and the receipt of drug-related criminal proceeds (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 covered.

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

The anti-money laundering achievements in Japan can be grasped to some extent by looking into the number of cleared cases related to money laundering and the amounts of criminal proceeds confiscated.

### Section 1 Cleared Cases of Money Laundering in 2018

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

##### **1. Number of Cleared Cases**

There were 504 cases cleared as money laundering under the Act on Punishment of Organized Crimes in 2018, consisting of 1 case of management control through illicit proceeds, 377 cases of concealment of criminal proceeds,<sup>(Note)</sup> and 126 cases of receipt of criminal proceeds. The total number of the cases represented an increase of 151 case (42.8%) from the previous year (see Table 5-1).

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

Table 5-1 Number of Arrests Made for Money Laundering under the Act on Punishment of Organized Crimes

Category	Year										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
Management Control through Illicit Proceeds (Article 9)	0 (0)	1 (0)	1 (0)	0 (0)	2 (0)	1 (1)	2 (0)	0 (0)	2 (0)	1 (0)	
Concealment of Criminal Proceeds etc. (Article 10)	172 (49)	139 (46)	150 (43)	158 (27)	171 (35)	180 (26)	234 (43)	268 (45)	240 (22)	377 (36)	
Receipt of Criminal Proceeds etc. (Article 11)	54 (41)	65 (44)	92 (38)	80 (28)	99 (40)	112 (28)	145 (46)	112 (25)	111 (24)	126 (26)	
Total	226 (90)	205 (90)	243 (81)	238 (55)	272 (75)	293 (55)	381 (89)	380 (70)	353 (46)	504 (62)	

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

With regard to the types of money laundering cases under the Act on Punishment of Organized Crimes, the number of theft cases was the highest at 191, followed by 162 cases of fraud, 28 cases of loan shark and 26 cases of computer fraud, etc.

## 2. Modus Operandi of Money Laundering Observed in Cleared Cases

### (1) Examples of Concealment of Criminal Proceeds

Instances of concealment of criminal proceeds in 2018 consisted largely of cases in which offenders attempted to transfer funds to bank accounts under the name of other persons. Bank account is a major infrastructure used in money-laundering crimes.

In addition, criminals use various methods to keep investigative authorities off their track, including hiding stolen properties in coin lockers, disguising criminal proceeds as legal proceeds using forged receipts, and more.

#### **[Case 1] Concealment of criminal proceeds related to an illegal employment case**

A naturalized Chinese man and his wife was running a farm and made people from China without working visas work for their farm. They sold the farm products and made the customers send payments to bank accounts opened under the name of other persons. This case was cleared as violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds, etc.).

(Ibaraki, in January)

**[Case 2] Concealment of criminal proceeds related to a special fraud case**

In this special fraud case, an unemployed man deceived the victim to hand him an ATM card and stole the victim's money by withdrawing from the victim's bank account. Then the man hid the cash in a coin locker. This case was cleared as violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds, etc.).

(Metropolitan Police Department , in February)

**[Case 3] Concealment of criminal proceeds related to violation of the Copyright Act**

A man was selling pirated DVDs, which he reproduced without the copyright holders' approval, using cash-on-delivery post, falsely claiming that the contents were audio CDs. The man made employees of Japan Post, etc. send the payments to bank accounts under the name of other persons. This case was cleared as violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds, etc.).

(Osaka, in April)

**(2) Examples of Receipt of Criminal Proceeds etc.**

Cases involving the receipt of criminal proceeds which were cleared in 2018 included cases where offenders received criminal proceeds they gained from prostitution and gambling crimes directly or through bank accounts, and cases where offenders received stolen properties by purchasing them. These cases show that criminal proceeds are transferred from one criminal to another by various means.

**[Case 4] Receipt of criminal proceeds related to a habitual gambling case**

The offender was an employee of an automobile dealer and he was close to an organization of the Kobe Yamaguchi-gumi. The offender was also working for the illegal casino as a cash bearer and he knowingly received cash, which was criminal proceeds gained from habitual gambling at the casino, from an employee of the said casino. This case was cleared as violation of the Act on Punishment of Organized Crimes (receipt of criminal proceeds, etc.).

(Wakayama, in January)

**[Case 5] Receipt of criminal proceeds related to a theft case**

A man running a second-hand shop purchased golf clubs, etc. for value from his customer, knowing that those golf clubs were stolen properties. This case was cleared as accepting stolen properties for value and violation of the Act on Punishment of Organized Crimes (receipt of criminal proceeds, etc.).

(Osaka, in May)

### **3. Money Laundering Cases Related to Boryokudan (General name for Japanese gangster organizations)**

There were a total of 62 cases cleared as money laundering related to Boryokudan (including Boryokudan members, associates, and other related parties) in 2018, consisting of 36 cases of concealment of criminal proceeds, and 26 cases of receipt of criminal proceeds. This number accounts for 12.3% of all cases cleared as money laundering under the Act on Punishment of Organized Crimes in 2018.

Looking at ML crimes related to Boryokudan members by predicate offense, there were 25 fraud cases, 7 theft cases, 7 loan shark cases, 6 prostitution cases, and 5 gambling cases. This indicates that Boryokudan commits a variety of offences and laundering the criminal proceeds.

#### **(1) Examples of Means of Concealment of Criminal Proceeds by Boryokudan**

With regard to the cases of concealment of criminal proceeds, there were 18 fraud cases, 6 loan shark cases, 4 extortion cases, and 3 theft cases. The modus operandi is that criminal proceeds obtained by fraud, etc. are concealed in a bank account opened under the name of another person and that proceeds obtained through theft and other crimes are sold under false names.

#### **[Case 6] Concealment of criminal proceeds related to an organized fraud by the head of organizations under the Sumiyoshi-gumi**

The head of organizations under the Sumiyoshi-gumi sent health food to many victims using cash-on-delivery post. They wrongfully made employees of Japan Post collect cash from the victims under the name of product fees and made them send the money to the account of a company, which was made under someone else's name and related to the offender's organization. This case was cleared as violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds, etc.).

(Saitama and Chiba, in March)

#### **(2) Examples of Receipt of Criminal Proceeds related to Boryokudan**

Cleared cases of receipt of criminal proceeds consisted of 7 fraud cases, 6 prostitution cases, 4 theft cases, and 4 gambling cases. These cases are including the receipt of proceeds gained from prostitution under the name of protection rackets.

**[Case 7] Receipt of criminal proceeds related to violation of the Anti-Prostitution Act by the head of organizations under the Rokudaime Yamaguchi-gumi**

The head of organizations under the Rokudaime Yamaguchi-gumi received cash under the name of protection rackets from the owners of shops providing sexual services, knowing that the money they received was proceeds from providing spaces for prostitution. This case was cleared as violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds, etc.).

(Ehime, 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 2018, there were 48 cases related to foreign visitors to Japan, representing 9.5% of all cases, which consist of 34 cases of concealment of criminal proceeds and 14 cases of receipt of criminal proceeds.

With regard to the predicate offences of the cases of money laundering related to foreign visitors to Japan, there were 12 fraud cases, 11 theft cases, etc. 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 opened under the name of another person and sale of stolen items, etc. under false names.

**[Case 8] Concealment of criminal proceeds related to violation of the Banking Act by a Vietnamese group**

Vietnamese men who were running an unlicensed banking business (underground bank) made their customers send the money, which was to be illegally sent from Japan to Vietnam, to someone else's bank account managed by them. This case was cleared as violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds, etc.).

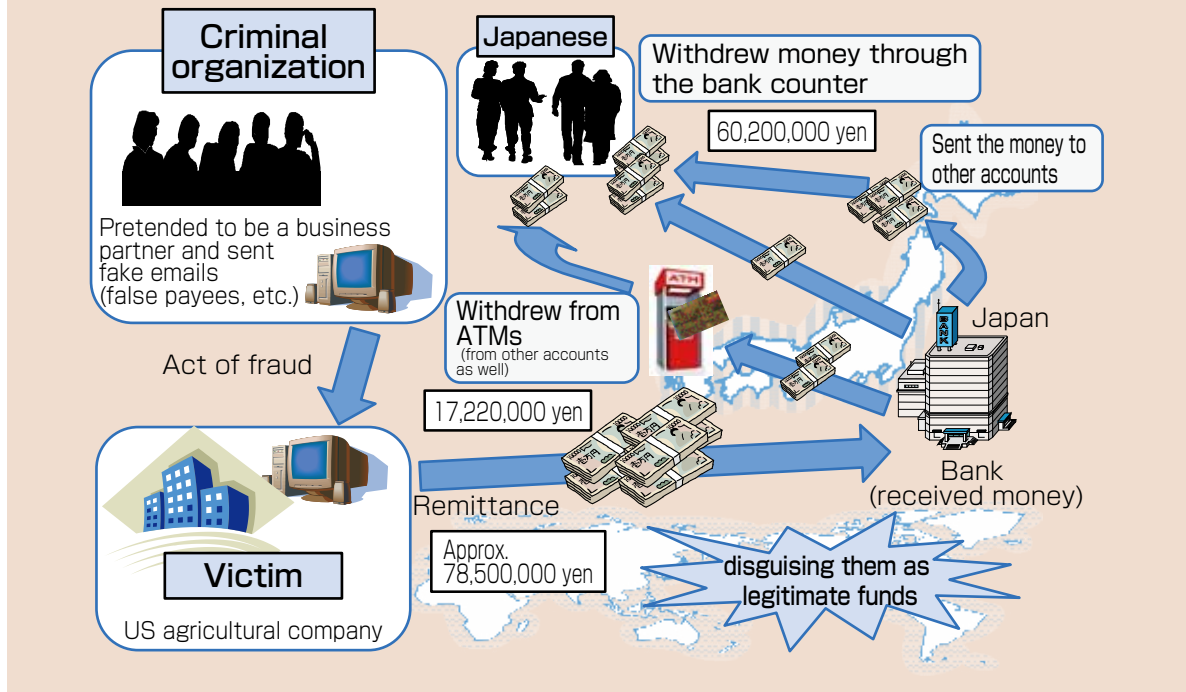
(Metropolitan Police Department, Yamagata and Yamaguchi, in June)

#### **5. Cases of Cross-Border Money Laundering**

There were some ML cases where criminal proceeds from frauds committed overseas were disguised as legal funds, concealing the true sources and owners of the funds.

**[Case 9] Concealment of criminal proceeds related to international business email fraud by Japanese men**

Japanese men, who were board members of a company, received money in their domestic corporate account from a fraud victim, an agricultural company in the US, which was deceived by fraudulent business emails. The group of Japanese men gave the bank teller a false explanation and disguised the money as legal business proceeds in order to deposit the money into the account. They also withdrew cash from the account, disguised as ordinary deposit transactions. This case was cleared as violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds, etc.). (Metropolitan Police Department, in July)



**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 2018 was 7 cases. (see Table 5-2).

In some cases, funds acquired through drug offences such as smuggling of cannabis, etc. are laundered. In these cases, payments for the illegal drug are deposited into a bank account under the name of another party.<sup>(Note)</sup>

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

Table 5-2 Number of Arrests Made for Money Laundering under the Anti-Drug Special Provisions Law

Category	Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Concealment of drug-related criminal proceeds etc. (Article 6)	5 (1)	8 (4)	8 (3)	8 (2)	6 (6)	5 (3)	5 (3)	5 (4)	7 (3)	5 (2)
Receipt of drug-related criminal proceeds etc. (Article 7)	5 (3)	1 (1)	0 (0)	3 (2)	4 (4)	2 (2)	3 (2)	3 (2)	1 (1)	2 (1)
Total	10 (4)	9 (5)	8 (3)	11 (4)	10 (10)	7 (5)	8 (5)	8 (6)	8 (4)	7 (3)

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

#### [Case 10] Concealment of drug-related criminal proceeds related to trafficking of cannabis, etc.

A trafficker sold cannabis, etc. using delivery services, etc. and made his customers send a total of approximately 1,560,000 yen to an account opened in the name of another person. This case was cleared as violation of the Anti-Drug Special Provisions Act (concealment of drug-related criminal proceeds).

(Nara, in June)

## Section 2 Temporary Restraining Order for Confiscation of Criminal Proceeds before Institution of Prosecution in 2018

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 2018 (on the request of judicial police officers) was 206 (an increase of 18 (9.6%) from the previous year) (see Table 5-3).



**Table 5-3 Numbers of Temporary Restraining Orders Issued and Total Amounts Confiscated Before Prosecution under the Act on Punishment of Organized Crimes**

Year	Cases	Total amount of credit	Others
2014	193 (45)	¥345,361,578	Pure silver bell: 1
2015	220 (46)	¥341,264,257	Passenger vehicle: 3
2016	183 (34)	¥530,718,975	
2017	188 (27)	¥1,341,301,078	Watch: 2
2018	206 (27)	¥410,918,942	Gold: 1,266 Watch: 2

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

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

A breakdown of this figure by type of predicate offense includes 46 cases of unlicensed entertainment business, 28 prostitution cases, 27 illegal employment cases, 25 gambling cases, and 23 fraud cases.

The system of “Temporary Restraining Orders” under the Act on Punishment of Organized Crimes which allows the confiscation of criminal proceeds is an effective measure to deprive offenders of criminal proceeds. The police, in good coordination with the public prosecutor’s office, will use the system effectively and prevent criminal organizations from utilizing criminal proceeds. The police will actively make use of “Temporary Restraining Orders” in order to also ensure the enforcement of confiscation orders for the purpose of the recovery of crime victim’s property by the public prosecutor under the “Act on the Provision of Compensation for Crime Victim Property etc.”

“Temporary Restraining Orders” issued in 2018 include many orders against unlicensed entertainment business. Orders were also issued for monetary claims making use of the Act on Punishment of Organized Crime under which monetary claims are subject to confiscation. The examples of monetary claims confiscated are as follows, : claims on deposits and claims for unpaid salaries. In addition, since confiscation of crime components and items provided for or used for criminal acts became possible by the partial amendment of the Act on Punishment of Organized Crime, there were gold smuggling and gambling cases in which LEAs confiscated gold bullions and reserve funds as crime components of the cases.

**[Case 11] Temporary Restraining Order against proceeds related to an illegal employment case**

A man who was running a worker dispatching business let foreigners work illegally in Japan. A Temporary Restraining Order was issued against approximately 2.8 million yen deposits and contract fees, which were related to contracts involving these foreign workers and retained by the business.

(Saitama, in June)

**[Case 12] Temporary Restraining Order against proceeds from a predicate offense of special fraud**

A man who claimed to be self-employed engaged in a fraud case where cash was fraudulently received from many victims under the name of fees for dating agency services. The money from the victims were sent into an account made under someone else's name and were withdrawn by the man and re-deposited into the man's own account. A Temporary Restraining Order was issued against approximately 5.53 million yen deposits.  
(Tokushima, in June)

**[Case 13] Temporary Restraining Order against gold bullion related to gold smuggling**

In a case in which foreign nationals tried to smuggle gold bullions by plane in violation of the Customs Act, the Consumption Tax Act, and the Local Tax Act, a Temporary Restraining Order was issued against gold bullion seized by the customs (weighing approximately 8 kg; valued at 36 million yen) as crime components.  
(Hokkaido, in March)

**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 2018 was 17, (see Table 5-4).

For example, a Temporary Restraining Order was issued against proceeds from the trafficking of stimulant drugs.

Table 5-4 Number of Temporary Restraining Orders Issued and Total Amounts Confiscated Before Prosecution under the Anti-Drug Special Provisions Law

Year	Cases	Total amount of credit	Others
2014	16 (9)	¥40,625,322	Foreign currency: US\$20,700 Foreign currency: CNY260 Land: 150.68㎡ Building: 1 Passenger vehicle: 1 Car seat: 3 Key: 2 Mobile phone: 1
2015	14 (10)	¥37,318,473	Mobile phone: 1
2016	16 (12)	¥105,019,479	Passenger vehicle: 1 Claims on gold bullion: 0.85054g Claims on platinum bullion: 27.99112g
2017	11 (0)	¥2,302,673	
2018	17 (5)	¥48,408,554	Foreign currency: US\$1,000

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

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

#### **[Case 14] Temporary Restraining Order against proceeds from the cultivation of cannabis**

In a case in which men who were cultivating cannabis were arrested for violation of the Cannabis Control Act (cultivation for profit, etc.), a Temporary Restraining Order was issued against approximately 5,960,000 million yen cash and approximately 330,000 yen deposits, which were obtained from trafficking cannabis.

(Okayama, in July)

## **Section 3 Application of Provisions of Confiscation and Collection of Equivalent Value**

### **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 5-5.

**Table 5-5 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
2013	119	701,489	47	16,431,835	166	17,133,324
2014	72	117,462	62	408,319	134	525,782
2015	86	1,581,286	76	2,542,167	162	4,123,454
2016	75	188,569	90	1,866,425	165	2,054,995
2017	99	360,734	73	2,463,508	172	2,824,242

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 order.

## **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 5-6.

**Table 5-6 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
2013	61	16,407	214	506,150	275	522,558
2014	52	9,266	231	325,307	283	334,574
2015	56	11,025	199	194,243	255	205,269
2016	38	14,891	201	289,761	239	304,652
2017	36	39,291	192	317,231	228	356,522

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 order.

## Section 4 Cleared Cases of Violation of the Act on Prevention of Transfer of Criminal Proceeds in 2018

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 (excluding lawyers) and penalties on the trade of savings passbooks, and the police are 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 the cases cleared as illicit transfer of savings passbooks in 2018 was 2,575, a decrease of 6 cases from the previous year (see Table 5-7).

**Table 5-7 Number of Punishments Made under the Act on Prevention of Transfer of Criminal Proceeds**

Year	2014	2015	2016	2017	2018
Category					
Transfer etc. of savings passbooks (as business)	19	25	29	27	27
Transfer etc. of savings passbooks	1,584	1,559	1,902	2,523	2,519
Soliciting the transfer of passbooks, etc.	14	16	42	31	27
Transfer of foreign exchange cards, etc.	33	19	2	0	0
Transfer, etc. of information for virtual assets exchange	0	0	0	0	2
Others	1	0	4	0	0
Total	1,651	1,619	1,979	2,581	2,575

# Chapter 6

## Promotion of International Cooperation

As globalization of economy and financial services are remarkably spreading today, it has become quite easier to move money anytime and anywhere across borders in a moment. Consequently, financial services are likely to be exploited by criminal or terrorist organizations in an attempt to evade investigations of authorities in a way hiding criminal proceeds or terrorist funds through, among others, cross-border wire transactions.

To make matters worse, jurisdictions with non or insufficient compliance with the global AML/CFT regime would become a loophole and provide significant opportunity to those who are trying to commit ML/TF.

Taking these situations into consideration, it is essential for the international community to cooperate closely with each other in fighting against global scale ML/TF. In particular, in order to detect any illicit fund and prevent the misuse of the world financial system, competent government authorities of all jurisdictions playing any role in AML/CFT have to share the latest trends involving ML/TF or anything undermining our efforts in timely manner, and take effective measures against ML/TF all together.

### Section 1 Activities of International Institutions

#### Paragraph 1 FATF

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##### 1. Organization

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 US terrorist attacks of 2001, FATF has also taken the initiative in the promotion of international CFT measures.

FATF has 36 member jurisdictions (including Japan) and 2 international institutions as of the end of December 2018.

##### 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 ML/TF.

## **(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 financial regulations.

In 1996, FATF revised the Recommendations to make the STR obligatory, and for other matters.

In 2003, FATF revised its recommendations to counter increasing sophistication and complexity of ML.

The “40 Recommendations” contained following additional elements.

- Clear definition and expansion of scope of ML offence
- Undertaking CDD 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 ML

### b) FATF 9 Special Recommendations

In October 2001, a month after the US terrorist attacks, FATF held an Emergency Session. The agreement of the session was reflected in “the 8 Special Recommendations.” Since FATF added a new recommendation on “cash couriers” to this in 2004, it is now called “the 9 Special Recommendations on Terrorist Financing.” Main points of the 9 Special Recommendations are as follows:

- Criminalization of the financing of terrorism
- Requiring STR 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 integrated the 40 Recommendations and the 9 Special Recommendations into its new “40 Recommendations” in 2012 in preparation for its fourth Mutual Evaluation.

The major points which are newly included to the new “40 Recommendations” are summarized as follows.

- Enhancing risk-based approach
- Boosting transparency of legal person, entrustment, and wire transfer systems
- Enhancing capacity of the relevant administrative authorities and bolstering a system of international cooperation on countermeasures against ML/TF.

## **(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 view-



points such as law, regulation or control regime for AML, and investigation of ML crime.

Summarily, the process of the mutual evaluation refers to the following:

1. Desk-based review of the country's level of technical compliance, and the contextual factors and ML/TF risks
2. On-site visit to clarify issues relating to the country's implementation of AML/CFT system
3. Discussion at the FATF Plenary Meeting

The scope of the evaluations involves two inter-related components for technical compliance (TC) and effectiveness. The TC component will assess whether the necessary laws, regulations or other required measures are in force and effect, and whether the supporting AML/CFT institutional framework is in place. The effectiveness component, which will be introduced in the fourth round evaluation for the first time, will assess whether the AML/CFT systems are working, and the extent to which the country is achieving the defined set of outcomes. There are four possible levels of TC: C (Compliant), LC (Largely Compliant), PC (Partially Compliant) and NC (Non-Compliant). There are four possible levels of effectiveness: High, Substantial, Moderate and Low.

The evaluation results are summarized in the Mutual Evaluation Report (MER), which is published after being discussed and adopted (MER adoption) at the FATF Plenary Meeting. After the finalization of the evaluation, the assessed countries are required to provide follow-up reports on the status of improvement regarding deficiencies. The assessed countries will also have a follow-up assessment five years after the finalization of evaluation, where re-ratings on TC and effectiveness will be possible as part of the follow-up process. The assessed countries could be placed in either regular follow-up, which requires them to provide a report two and a half years after the MER adoption, or enhanced follow-up, which requires more frequent reporting following the first report to be made at a Plenary Meeting held around one year after the MER adoption. The assessed countries are expected to address deficiencies identified in the MER.

In response to the new 40 Recommendations, the fourth round of FATF Mutual Evaluation started in 2013, and evaluation procedures have been carried out sequentially based on the assessment methodology (evaluation standard for assessors) that was adopted in the same year.

### 3. Mutual Evaluation for Japan

FATF has conducted mutual evaluations for Japan three times (in 1994, 1998 and 2008). For the fourth round Mutual Evaluation of Japan, the assessor team will make an on-site visit and the evaluation will be conducted in October/November 2019 and MER adoption is scheduled to be conducted at a Plenary Meeting in June 2020.

### 4. Participation

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 ML typologies, etc. and chaired the plenary between July 1998 and June 1999. JAFIC and other government ministries and agencies have also actively joined the discussion toward the development of a new AML/CFT framework, sending their officials to plenary and working group meetings every year.

**【FATF Plenary Meeting (Paris)】**



## Paragraph 2 APG

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### 1. Organization

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. In the context of increasing risks of vulnerability to ML in the Asia/Pacific region, the APG was established to promote regional cooperation, adoption of the international standards, and to provide assistance to jurisdictions.

As of the end of December 2018, 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 ML in the Asia/Pacific region

**【APG Annual Meeting (Kathmandu)】**



### 3. Participation

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. Japan took on the co-chair with Australia between July 2004 and June 2006.

JAFIC and other government ministries and agencies have also actively joined the discussion regarding the latest ML methods and trends, sending their officials to the plenary meeting and typology workshop every year.

## Paragraph 3 Egmont Group

### 1. Organization

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 revised its charter in light of the growing needs for close international cooperation between FIUs due to increasing sophistication and complexity of ML around the world; its increasingly diverse functions; and the inclusion of the enhancement of the FIUs' functions and a system of international cooperation in FATF's new "40 Recommendations." A new charter that better specifies the objectives and role of the Egmont Group was adopted at an annual plenary held in South Africa in July 2013.

The Egmont Group consists of FIUs of 159 jurisdictions as of the end of December 2018.

### 2. Activities

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. Working Group (WG) on information exchange concerning AML/CFT
2. Working Group (WG) on review of the candidacy of potential members, assistance and legal compliance
3. Working Group (WG) on policies and procedures
4. Working Group (WG) on technical assistance and training

### 3. Participation

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 has 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 FIU for supporting the application procedures (in co-sponsorship with the Thailand FIU) (hereinafter referred to

**[Egmont Group Annual Meeting (Sydney)]**



as “sponsor FIU”) for Myanmar FIU, which is currently not yet an Egmont Group member. Since JAFIC started to take the responsibility as Japan FIU from JAFIO in April 2007, JAFIC applied to the Egmont Group and was granted the Egmont Group membership 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 group meetings to participate in the discussions on the principles related to information exchange between FIUs and other matters. JAFIC 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. In 2012, JAFIC sent staff members to Pakistan for a joint onsite survey with U.S. FIU staff members regarding Pakistan FIU’s membership qualification.

Moreover, JAFIC has taken over from JAFIO the role of sponsor FIU for the FIU of Myanmar in the application procedures into the Egmont Group, and in 2016, JAFIC staff visited the FIU of Myanmar together with the FIU of Thailand, which is a joint sponsor, to confirm the progress of procedures for joining the Egmont Group in Myanmar.

## Section 2 Progress of the International Cooperation in 2018

### Paragraph 1 Calling on Specified Business Operators to take actions upon the Adoption of the United Nations Security Council Resolutions

#### **1. Measures based on the United Nations Security Council Resolutions (UNSCRs)**

Japan implements targeted financial sanctions to freeze assets of persons or entities associated with the Taliban, etc. according to UNSCRs concerned. Every time the list of such parties is revised, the National Police Agency requires specified business operators (excluding lawyers, shiho-shoshi lawyers, certified administrative procedures specialists, certified public accountants and tax accountants; the same applies in this paragraph) through supervisory authorities to ensure CDD and reporting of all suspicious transactions. Such a requirement was made a total of 15 times in 2018.

#### **2. Measures based on the Public Statement issued by FATF**

The FATF Plenary held in February, June and October 2018 adopted the Statement which called on all FATF members and other jurisdictions to apply countermeasures to protect the international financial system from ML/TF risks emanating from Islamic Republic of Iran and North Korea. In response, the National Police Agency has issued a notice through supervisory authorities that specified business operators should properly perform CDD and reporting suspicious transactions.

Based on the requests for specified business operators mentioned in 1 and 2 above, some new effective AML/CFT measures were introduced; for example, some industry organizations launched databases that specified business operators can access in the course of CDD procedures.

## Paragraph 2 Participation in the Activities of International Organizations

Table 6-1 presents that JAFIC has been actively participating in the activities of international organizations by sending its members to each meetings.

Table 6-1 Participation in the Activities of International Organizations in 2018

	Month	Name of meeting	Location
FATF	February	Plenary Meeting	Paris (France)
	June		
	October		
APG	July	Annual Meeting	Kathmandu (Nepal )
	December	Typology Meeting	Novosibirsk (Russia)
Egmont Group	March	Working Group	Buenos Aires (Argentina)
	September	Annual Meeting	Sydney (Australia)

## Paragraph 3 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 ML/TF by appropriately tracing criminal proceeds or terrorist financing across borders.

On the other hand, Article 14 of the Act on Prevention of Transfer of Criminal Proceeds stipulates that the National Public Safety Commission (for which JAFIC serves as a secretariat) 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 of provided information and other matters with foreign FIUs.

JAFIC has been coping with the negotiations for establishing the frameworks for information exchange with numerous foreign FIUs in order to enable constructive exchange of information with them.

From its establishment of April 2007 till the end of 2018, JAFIC has set the frameworks for information exchange with the FIUs of 104 jurisdictions. (See Table 6-2)

[Establishment of Framework with Morocco FIU]



[Establishment of Framework with Cook Islands FIU]



Table 6-2 Jurisdictions with which JAFIC has Set the Frameworks for Information Exchange between FIUs

Jurisdictions				
Algeria	Qatar	Seychelles	Bahrain	Macau
Argentina	Canada	Senegal	Panama	Malawi
Aruba	Korea	Saint Vincent and the Grenadines	Vanuatu	Malta
Armenia	Cambodia	Saint Martin	Papua New Guine	Malaysia
Anguilla	Cyprus	Turks and Caicos Islands	Bermuda	Isle of Man
Andorra	Cuba	Thailand	Palau	Myanmar
Israel	Curaçao	Tajikistan	Paraguay	Mexico
Italy	Kyrgyzstan	Czech	Bangladesh	Mauritius
India	Cook Islands *	China	Fiji	Morocco *
Indonesia	Cayman Islands	Tunisia *	Philippines	Monaco
Uzbekistan	Costa Rica	Chile	Finland	Mongolia
U.K.	Colombia	Denmark	Brazil	Montenegro
British Virgin Islands	San Marino	Germany	France	Jordan
Egypt	Gibraltar	Togo	U.S.	Laos
Australia	Jersey	Trinidad and Tobago	Vietnam	Latvia
Austria	Singapore	Turkmenistan	Peru	Liechtenstein
Netherlands	Switzerland	Turkey	Belgium	Romania
Ghana	Sweden	Nigeria	Poland	Luxembourg
Cabo Verde	Spain	New Zealand	Bolivia	Lebanon
Guernsey	Sri Lanka	Nepal	Portugal	Russia
Kazakhstan	Slovenia	Norway	Hong Kong	

\*Jurisdictions with which JAFIC has newly set the frameworks for information exchange in 2018.

## 2. Situation of Information Exchange

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

As JAFIC allocated sufficient resources to STR analysis, it has made actively arrangements on information exchange with foreign FIUs. In 2018, unusual or unreasonable money transfers to and from foreign countries, which were identified in STR analyses, JAFIC, for further analysis, made 255 requests to relevant foreign FIUs for information such as the flow of funds transferred out of Japan, the source of remittance from abroad (see Table 6-3).



Table 6-3 Number of Requests for Information between JAFIC and Foreign FIUs

Category \ Year	2014	2015	2016	2017	2018
Number of requests for information from foreign FIUs to JAFIC	34	67	60	66	72
Number of requests for information from JAFIC to foreign FIUs	166	183	149	201	255
Total	200	250	209	267	327

In addition to these requests for information, between FIUs, there are mechanisms for voluntarily exchanging information that is useful for effective AML/CFT measures (see Table 6-4).

Table 6-4 Number of Voluntary Information Disclosures between JAFIC and Foreign FIUs

Category \ Year	2014	2015	2016	2017	2018
Number of voluntary information disclosures from foreign FIUs to JAFIC	37	50	37	69	68
Number of voluntary information disclosures from JAFIC to foreign FIUs	17	30	46	48	101
Total	54	80	83	117	169

In 2018, there were 103 cases in which JAFIC disseminated information provided by foreign FIUs to domestic LEAs (see Table 6-5).

Table 6-5 Number of Cases in Which JAFIC Shared Information Provided by Foreign FIUs with Domestic LEAs

Category \ Year	2014	2015	2016	2017	2018
Number of cases in which JAFIC disseminated information provided by foreign FIUs to domestic LEAs	83	109	106	139	103