



# Annual Report

2019



National Police Agency

# Introduction

The Act on Prevention of Transfer of Criminal Proceeds has been amended multiple times and its functions enhanced, so that it can effectively address the ever-changing international and domestic situation surrounding money laundering and terrorist financing (ML/TF). Thanks to the continuous 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 with the competent authorities reached a record high of 440,000 in 2019. The amount of information on STRs provided for the law enforcement authorities (LEAs) and other institutions is also increasing every year, and such information on STRs resulting in arrests registered a figure of over 1,000 cases for the sixth consecutive year.

Enhancing anti-money laundering regulations in one country does not prevent money laundering because it occurs in countries whose regulatory frameworks are weak. International coordination is necessary for measures to combat money laundering. Based on the Recommendations developed by the Financial Action Task Force (FATF), which is an intergovernmental organization to combat money laundering, each country is implementing AML/CFT (Anti-Money Laundering and Countering the Financing of Terrorism) measures in a coordinated manner. In accordance with the FATF Recommendations, the Japanese government has developed laws and systems to combat money laundering by taking account of crime trends and changing situations in Japan to implement AML/CFT measures in collaboration with private companies.

In order to promote AML/CFT measures effectively, enforcement efforts by domestic LEAs alone are not enough, as it is also necessary to actively and continuously promote public-private sector cooperation and international coordination. In order to achieve this goal, we need 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, thereby contributing to 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 Accounts, 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)
Foreign Exchange Act	Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949)

## 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 Other 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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# 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 will continue to be utilized for further crimes or be used to promote organized crimes or terrorism. Money laundering could also pose a serious threat 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), and accordingly, Japan has also been working on these regimes in cooperation with the international community.

We consider that 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, illustrate our dedication to taking on the global challenge of combating ML/TF and implementing 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 considered to be a crisis in the international community, prompting a variety of initiatives to address this issue. Especially in fighting against illegal transactions by transnational drug-trafficking organizations, it was recognized as important to take all possible measures to inflict damage on the sources of their funds, 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 it 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 the 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 laundering measures to be applied in the fields of law enforcement, criminal justice, and the financial system. “The 40 Recommendations” required early ratification of “the UN New Narcotics Convention,” the development of domestic laws stipulating anti-money laundering measures, and the establishment of measures, such as obligations to conduct customer identification and to report 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 that could threaten each country’s security, and therefore the United Nations took the 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, in June 1996, the FATF revised a part of “The 40 Recommendations,” and recommended that, in addition to 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, the participating countries agreed to create an FIU (Financial Intelligence Unit) in each country, which is 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. The 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 other matters, in terms of prevention it is critical to intercept the terrorist financing, clarify the sources of the funds, and promote international cooperation.

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

Subsequently, 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 Rec-

ommendations,” at which time it included measures to counter terrorist financing 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 measures 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 to conceal criminal funds. As a result, in June 2003 the FATF revised “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 to become the new 40 Recommendations in order to properly address the proliferation of weapons of mass destruction, as well as the additional threat of corruption, including the bribery of public officials and the 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 pointed to the risks that virtual assets could be 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 the 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 laws, along with the customer due diligence (CDD), STR, record-keeping, and other obligations.

Moreover, the Communiqué of the G20 Finance Ministers and Central Bank Governors Meeting in March and July 2018 noted the ML/TF issues of crypto-assets. Following this statement, in October 2018 the FATF revised its Recommendations to include the need for AML/CFT regulations on virtual assets exchangers, wallet providers, and providers of ICO (initial coin offering)-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 offences	23	DNFBPs: Other measures
4	Confiscation and provisional measures	24	Transparency and beneficial ownership of legal persons
5	Terrorist financing offences	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 organizations (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 on ML/TF at financial institutions	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 the increasing awareness of AML/CFT among the international community. Firstly, in June 1990, the then Director-General of the Banking Bureau at the Ministry of Finance issued a notice that demanded that financial institutions verify customers' identities. Next, “the Anti-Drug Special Provisions Law” was enforced in July 1992 as one of the domestic laws implementing the “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 the 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 for the regulations against criminal proceeds on several points. Firstly, the scope of predicate offences for money laundering was extended to include other serious crimes in addition to 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 that the Financial Supervisory Agency (later re-organized to the Financial Services Agency) 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 to 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 U.S., “the Act on the Punishment of Financing to 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 the collection 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 offences were included in predicate offences. Moreover, terrorist funds were stipulated as criminal proceeds, which means that assets

suspected of being 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 January 2003).

Because of the 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 against the transfer (both receiving and assigning) 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, in December 2004, “the Headquarters for Promotion of Measures Against Transnational Organized Crime and International Terrorism,” with the Chief Cabinet Secretary as its head, published “the Action Plan for Prevention of Terrorism,” including consideration of the implementation of the re-revised 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 to implement 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, and [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 the relevant ministries and agencies, quoting all references of the Customer Identification Act and a portion of the Act on Punishment of Organized Crimes, and submitted it to the 166th National Diet session in February 2007. “The Act on Prevention of Transfer of Criminal Proceeds” was then adopted in March of that year. The 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, in consideration of the 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 operator, 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 Evalua-

tion of Japan, the government partially amended the Act on the Punishment of Financing to Offences of Public Intimidation (which 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 follow-up reports (NRAs), [2] clarify the criteria for suspicious transactions, [3] ensure stricter verification of correspondence contracts, [4] and expand the obligation for business operators to make efforts to develop the necessary systems (which 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 amended 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, in response to the expansion of the scope of predicate offences related to criminal proceeds through the amendment of the Act on Punishment of Organized Crimes, Japan amended the Act on Prevention of Transfer of Criminal Proceeds and expanded the scope of receivers of STRs to include the officials of the National Tax Agency and other authorities, who are in charge of investigations of offences that fall under the expanded scope of predicate offences. This Act came into force in July 2017.

In response to the FATF Recommendations, which pointed out the risks that casinos may be used for ML/TF purposes and the need to introduce CDD obligations for 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 in the scope of specified business operators.

The major amendments to laws in 2019 are discussed in Chapter 2 (Legislative Regime on AML/CFT).

The National Police Agency, together with other relevant government ministries and agencies, has amended AML/CFT-related legislation as appropriate, including the Act on Prevention of Transfer of Criminal Proceeds and its subordinate decrees, as well as various other ordinances, thereby responding to changes to 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 of 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 natural 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 become compulsory.		
May 1998	Birmingham Summit (Agreement on establishment of FIU)		
July 1998	Second FATF natural 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 of Punishment of Financing to Offences of Public Intimidation and the revised Act on Punishment of Organized Crimes (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 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	Third FATF 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 assets)
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.
November 2019	Fourth FATF natural evaluation of Japan - On-site evaluation

## 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 Act on Punishment of Financing to Offences of Public Intimidation
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 assets 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)
June 2017	Amendment of the Act on Prevention of Transfer of Criminal Proceeds (National Tax Agency and other authorities added to the recipient of information on suspicious transactions)
July 2017	Enforcement of the amended Act on Prevention of Transfer of Criminal Proceeds (amendment approved in June 2017)
July 2018	Amendment of the Act on Prevention of Transfer of Criminal Proceeds (adding casinos into the scope of specified business operations)
May 2019	Amendment of the Act on Prevention of Transfer of Criminal Proceeds (The term "virtual asset" replace with "crypto asset"; the scope of regulation of services to manage crypto assets expanded)

## Section 3 History of FIU in Japan

### 1. Activities of the Japan Financial Intelligence Center (JAFIC)

Following the enforcement of the Act on Punishment of Organized Crimes in February 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 once again revised the 40 Recommendations, expanding the scope of businesses subject to the obligation to implement measures, such as verifications of customers' identities, beyond financial institutions. In light of this, Japan also decided to expand the scope of businesses subject to the obligation for implementing measures to prevent ML/TF 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 uses reported information in general for investigations and countermeasures against organized crimes and terrorism. This approach was clarified by the decision made in November 2005 by the Japanese government's Headquarters for the Promotion of Measures against Transnational Organized Crime and International Terrorism to have the National Police Agency draft 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 the 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 Director for Prevention of Transfer of Criminal Proceeds was established within the Organized Crime Department in 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 Director for Prevention of Transfer of Criminal Proceeds 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 Director for Financial Intelligence was established under the Organized Crime Policy Planning Division to promote more sophisticated, comprehensive, and cross-sectorial crime analysis. Money Laundering Prevention Office, the Director for Financial Intelligence, and the Director for International Cooperation (hereinafter referred to as "JAFIC") serve as the FIU in Japan.

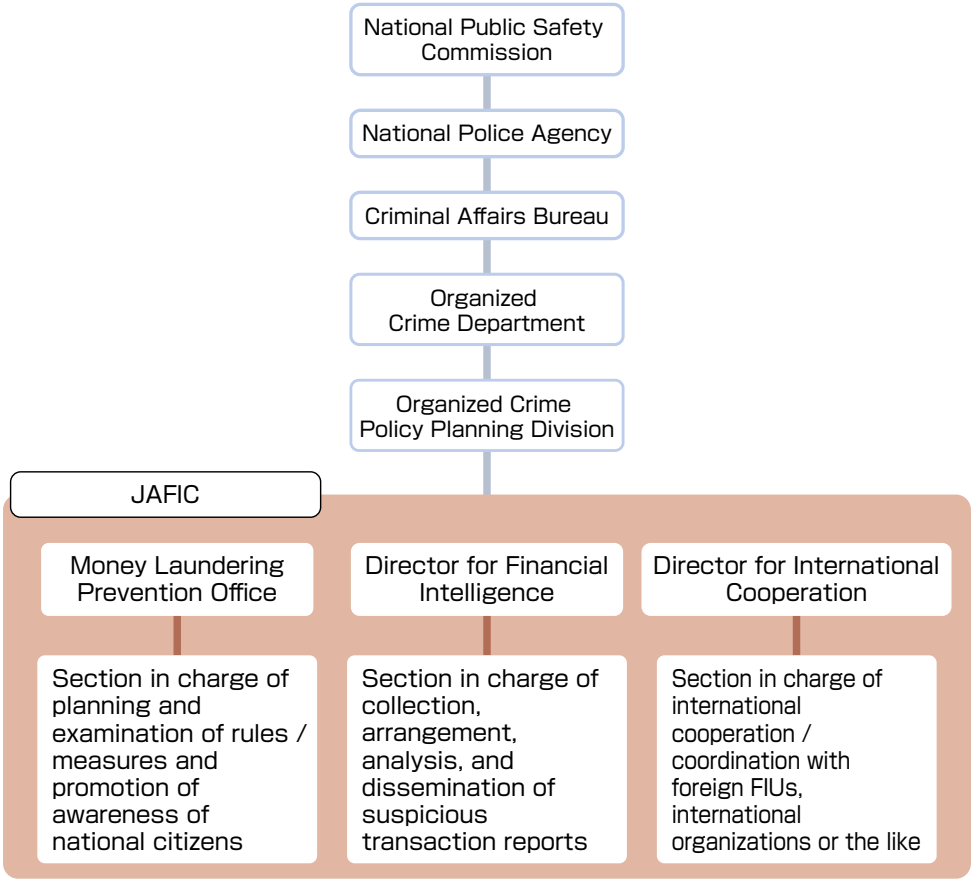
## 2. Mission and Structure

JAFIC endeavors to increase people's understanding about the importance of preventing the transfer of criminal proceeds, and it is tasked with the following works in accordance with the Act on Prevention of Transfer of Criminal Proceeds.

- Collecting, arranging, and analyzing information of suspicious transactions and disseminating information to investigative authorities, etc.
- Disseminating information to foreign FIUs
- Preparing and publishing NRAs formulated after investigating and analyzing the status of transfers of criminal proceeds
- Providing information and supplementing supervisory measures by administrative authorities to ensure that specified business operators take the required measures

JAFIC also plans and examines the legal system related to AML/CFT and various measures. 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 working 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 relevant ministries and agencies in charge of supervising business operators not only exercise the supervisory function to secure the fulfillment of obligations under the Act on Prevention of Transfer of Criminal Proceeds, but they also provide support by issuing Lists of Reference Cases of Suspicious Transactions and holding seminars together with industry organizations. On the other hand, the police and other investigative authorities contribute in the areas of punishing money laundering or predicate offences and confiscating their proceeds. These ministries and agencies carry out their duties in each position in cooperation with each other in several ways, including by sharing useful information and discussing issues to prevent money laundering.

# Chapter 2

## The Legislative Regime for AML/CFT

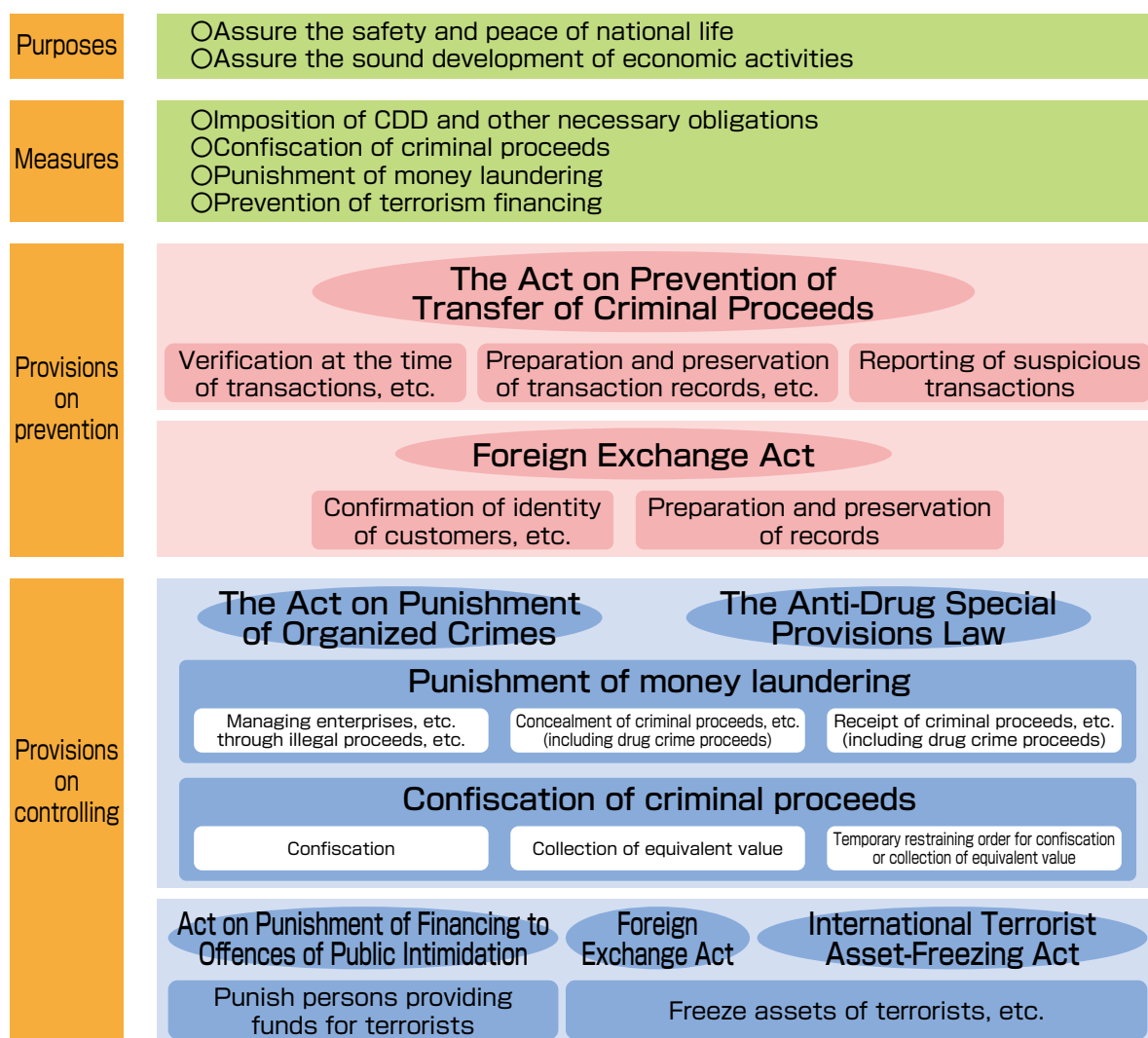
The AML/CFT regime in Japan has been developed since the 1980s. Today's AML/CFT regime focuses on achieving the following four goals:

- (1) Imposing CDD and other necessary obligations
- (2) Criminalizing money laundering
- (3) Confiscating criminal proceeds
- (4) Preventing terrorism financing

Of these, (1) is for deterring ML/TF by facilitating the tracing of criminal proceeds when they are transferred and making it difficult to avoid prosecution or confiscation, (2) and (3) primarily target assets of criminal organizations to root out their sources of funds, and (4) is for cutting-off the funding necessary for the activities of terrorists by designating terrorists as individuals subject to asset-freezing measures.

(1) is realized by the Act on Prevention of Transfer of Criminal Proceeds and the Foreign Exchange Act, (2) and (3) are realized mainly by the Act on Punishment of Organized Crimes and the Anti-Drug Special Provisions Law, and (4) is realized by the Act on Punishment of Financing to Offences of Public Intimidation, the Foreign Exchange Act, and the International Terrorist Asset-Freezing Act.

Figure 2-1 The Legislative Regime for AML/CFT



## Section 1 The Legislative Regime Primarily for Imposing Obligations on Specified Operators to Perform CDD and Other Preventive Measures

### Paragraph 1 The Act on Prevention of Transfer of Criminal Proceeds

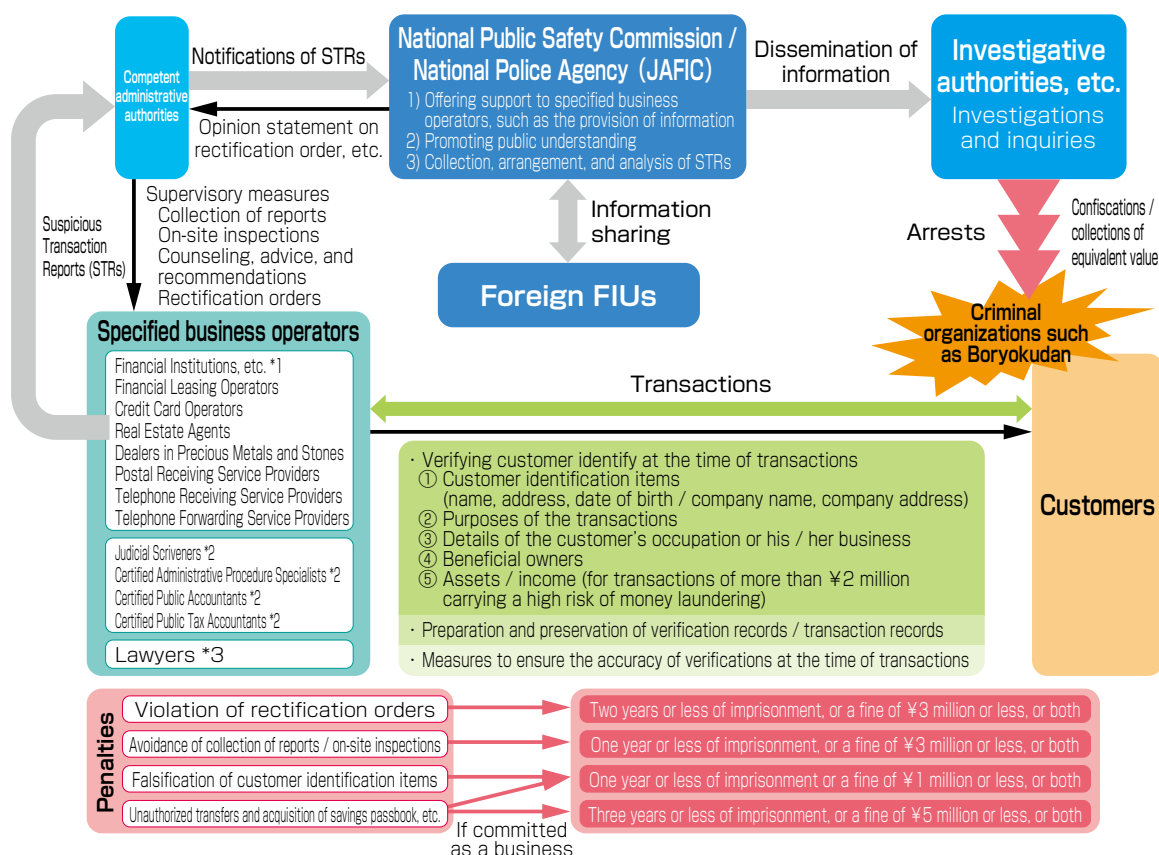
The Act on Prevention of Transfer of Criminal Proceeds was created based on two laws, the amended Customer Identification Act and a portion of the Act on Punishment of Organized Crimes, in order to address changes in money laundering trends more effectively and comprehensively in a way consistent with global standards set out by the FATF 40 Recommendations in 2003.

The Act provides for preventive measures to combat ML/TF by imposing obligations on specified business operators to perform CDD, record keeping, filing STRs, etc. In 2011, various amendments were made to the Act, including the addition of verifying details for transactions, the addition of telephone forwarding service providers to the list of specified busi-



ness operators, the addition of measures for appropriate verification at the time of transactions, and increased punishments on illicit transfer of passbooks. The amended Act was fully enforced on April 1, 2013. In addition, in 2014, a legal amendment was made to include provisions to clarify the determination method of suspicious transactions, to enhance verification at the time of the conclusion of correspondence contracts, and to expand the obligation for specified business operators to make efforts to develop internal policies, procedures, controls, etc., and this amendment was fully enforced on October 1, 2016.

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



\*1 Amongst financial institutions, etc., those operators involved in foreign exchanges 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 the accurate verification of transactions and the preparation/preservation of verification records and transaction records by lawyers. These rules are based on the examples of judicial scriveners and other professions contained in the Act on Prevention of Transfer of Criminal Proceeds.

## 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 verifying customer identification data, preserving transaction records and the like, and reporting sus-

picious 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 that falls under the Act, and thus is required to perform CDD and other obligations, shall be called “specified business operators” who shall be designated in line with the FATF Recommendations and also the domestic business context.

### **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-trusteed 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); Organization for Postal Savings, Postal Life Insurance and Post Office Network (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. The Responsibilities, etc. of the National Public Safety Commission (Article 3)

The Act provides that the National Public Safety Commission is responsible for 1) enhancing 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, 2) promptly and appropriately collecting, arranging, and analyzing 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 the 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 levels of transfers of criminal proceeds by type of transaction conducted by specified business operators and other business operators.

#### 5. Measures by Specified Business Operators

The measures that 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 a transaction (Article 4)

In conducting the 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 the intended nature of the transaction, and occupation by asking for the customer's identification documents, such as a 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 the intended nature of the transaction, the 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 account (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.

For transactions that have a high risk of being related to ML/TF, where there is a suspicion of pretending to be a customer, etc., when conducting specified business affairs that do not fall under specified transactions, specified business operators are required to use a more enhanced method than usual to verify items related to verification at the time of transactions. Moreover, in cases where the transaction involves the transfer of assets worth more than ¥2 million, specified business operators, except judicial scriveners, etc., are required to verify information concerning customers' sources of wealth and sources 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 the verification records collected at the time of transaction, as well as on 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 the 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 judicial scriveners, etc.).

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

(Note) Methods, etc., of verifying whether there is a suspicion of ML through a comparison of the nature of transactions with those of usual transactions, a comparison with past transactions with the same customer, and a check 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

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<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 an exchange business for the purpose of international settlements. This contract makes it possible for Japanese financial institutions that do not have deposit accounts at foreign banks to indirectly make settlements using other banks' deposit transaction relationships.

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)**

When 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 information, 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 take measures to keep up-to-date information for which verification at the time of transactions was conducted, to formulate rules concerning the implementation of such measures as verification at the time of transactions, etc., and to appoint a person in charge of supervising business affairs, etc.

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

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

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

The purpose of notifications pertaining to enhanced verification at the time of the conclusion of correspondence contracts and foreign exchange transactions described in (5) and (6) is to make financial and other services less attractive to those who want to try to use them for international money laundering and also to ensure the 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 leaser 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)



\*For transactions that carry a high risk of ML/TF, the verification of transaction purpose and intended nature must be carried out based on stricter criteria. Also for transactions of over ¥2 million, verifications of assets and income are also required.

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

### Methods of Verification at the Time of Transaction

- **For Corporations** Verification of the customer identification items (company name, head office, or main office), the purpose and intended nature of the transaction, business description, and the beneficial owner, as well as verification of the person in charge of the actual transaction, are required.

#### For Face-to-Face Transactions

Presentation of a certificate of registered matters of the corporation, seal registration certificate, etc.  
Declaration of the purpose and intended nature for transaction  
Presentation of articles of association or other documents showing business description  
Declaration of the customer identification items when there are beneficial owners

+

Presentation of the certificate of the person in charge of the actual transaction

Declaration of the corporate name and address of the head office, etc. by the customer  
Declaration of the purpose and intended nature for transaction  
Presentation of articles of association or other documents showing a business description  
Declaration of the customer identification items when there are beneficial owners

+

• Sending of registration information from the registration information service of the Minji Homu Kyokai (Civil Legal Affairs Association)  
• Verification of the corporate name and address of the head office, etc., published on the Corporate Number Publication Site of the National Tax Agency

+

Presentation of the certificate of the person in charge of the actual transaction

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

Declaration of the corporate name and address of the head office, etc.  
Declaration of the purpose and intended nature for transaction  
Verification of articles of association or other documents showing a business description  
Declaration of the customer identification items when there are beneficial owners

+

Sending of registration information from the registration information service of the Minji Homu Kyokai (Civil Legal Affairs Association)

+

Sending of personal identification documents of the person in charge of the actual transaction or their copies

+

Sending of documents related to the transaction to both addresses, which do not need forwarding, written on the personal identification document of the corporation and the person in charge of the actual transaction, by registered mail (except when the person in charge of the actual transaction is registered as a board member who has the right to represent the corporation)

+

Verification of the customer identification items published on the Corporate Number Publication Site of the National Tax Agency

+

+

Sending of documents related to the transaction to both addresses, which do not need forwarding, written on the personal identification document of the corporation and the person in charge of the actual transaction, by registered mail

Submission of customer identification documents, such as a certificate of registered matters of the corporation, seal registration certificate, etc., or their copies  
Declaration of the purpose and intended nature for transaction  
Submission of articles of association or other documents, or their copies, showing a business description  
Declaration of the customer identification items when there are beneficial owners

+

Sending of personal identification documents of the person in charge of the actual transaction or their copies

+

Sending of documents related to the transaction to both addresses, which do not need forwarding, written on the personal identification document of the corporation and the person in charge of the actual transaction, by registered mail

Transmission of information from customers related to transactions using electronic certificates and electronic signatures that were created by a registrar based on the Commercial Registration Act  
Declaration of the purpose and intended nature for transaction  
Verification of articles of association or other documents showing business description  
Declaration of customer identification items when there are beneficial owners

+

Verification of the person in charge of the actual transaction

\*For transactions that carry a high risk of ML/TF, the verification of transaction purpose and intended nature must be carried out based on stricter criteria. Also for transactions of over ¥2 million, 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, 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 also disseminates 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 the competent administrative authorities in order to ensure the compliance of specified business operators. For this purpose, the supervising authorities exercise a supervisory power by collecting reports and conducting on-site inspections of the regulated businesses, provide the necessary guidance and advice, and make the necessary suggestions, or issue 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 3 million yen, or both. Persons who violate a rectification order shall be punished with imprisonment with labor for not more than two years, or a fine of not more than 3 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 non-compliance that JAFIC detected. For the purpose of fulfilling this duty, JAFIC is also granted the power to inspect a specified business operator that it has doubts about.

## **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., exposed to exploitation for the purpose of money laundering or any proceed-related crimes. In order to prevent this, the Act prohibits anyone from giving or taking a deposit/savings passbook, an exchange transaction card, or information for virtual assets exchange, etc., as the subject of a 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 1 million yen, or both. Specifically, when such transaction is conducted as a business of any of the parties concerned, the penalty shall be increased to imprisonment with labor for not more than three years, or a fine of not more than 5 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, result-

ing in a punishment of imprisonment with labor for not more than one year, or a fine of not more than 1 million yen, or both.

## 9. Recent Legislative Changes

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

### (1) The Amendment of the Act on Prevention of Transfer of Criminal Proceeds in Response to the Partial Amendment of the Payment Services Act

In March 2019, the “bill to partially amend the Payment Services Act for handling a variety of financial instruments brought by the development of information technology” was submitted to the 198th Diet of Japan to handle the diversification of financial instruments brought about by the recent developments in information technology, to increase trust in the functions of financial markets, and to protect users. Based on the fact that the term “crypto asset (CA)” has been used to refer to “virtual currency (VC)” in meetings at international level, the bill contained a provision for replacing the term “virtual currency (VC)” in the Payment Services Act with “crypto asset (CA),” the term “virtual currency exchange service provider” in the Act on Prevention of Transfer of Criminal Proceeds with “crypto asset exchange service provider,” and so forth as necessary.

In response to the amendment of the Payment Services Act, the bill also contained a provision for adding the following providers to the specified business operators onto who shall be imposed the obligations under the Act on Prevention of Transfer of Criminal Proceeds, including obligations to perform CDD, prepare and store verification records.

- Crypto asset exchange service providers who carry out the management of crypto assets for others in the course of trading without providing crypto asset exchange services
- Financial instruments transaction service providers who carry out derivatives transactions in which crypto assets and other digital assets are used as an underlying asset
- Financial instruments transaction service providers who carry out transactions in which crypto assets are used to make payments, including monetary payments, in a group investment scheme

The bill was passed and enacted on May 31, 2019 and promulgated on June 7 of the same year (the bill is due to enter into force within one year from the date of promulgation).

### (2) Amendment of the Act on Prevention of Transfer of Criminal Proceeds in Response to the Enactment of the Act on the Development of Specified Complex Tourism Facilities Areas, etc.

The FATF Recommendations state that governments should require casinos to take CDD measures for customers who are engaging in financial transactions exceeding a certain amount. This is because of the characteristics of a 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 noted in its summary report published in July 2017 that, from the AML/CFT perspective, casinos should be regulated in the same manner as other business operators regulated by the Act on Prevention of Transfer of Criminal Proceeds.

Based on the above recommendations, a draft of the Act on the Development of Specified Complex Tourism Facilities Areas—which included a partial amendment of the Act on Prevention of Transfer of Criminal Proceeds to include casinos in the scope of specified business operators subject to the obligations of verification at the time of transactions, the preparation and preservation of verification records, the reporting of suspicious transactions, etc.—was submitted to the 196th session of the Diet. The Act was approved and 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). In addition, the Order for Enforcement of the Act on the Development of Specified Complex Tourism Facilities Areas was promulgated on March 29, 2019, which includes a provision for adding the execution of an agreement for opening a casino account to the specified transactions on which CDD and other obligations shall be imposed, as a result of the partial amendment of the Order for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds.

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

#### **A. Backgrounds to the amendment**

Based on the Future Investment Strategy approved by the Cabinet in 2017 and 2018, the Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds was 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.

#### **B. Key points of the amendment**

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

##### **(A) Methods for Customer Verification Using a Photo of the Customer's Face**

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, and photo on the customer's photographic identification document and the thickness and other features of the identification document must be recognizable).

Furthermore, a specified business operator is allowed to identify a customer by receiving the data of an image of the appearance of said customer, etc. that is captured and sent using software provided by said specified business operator, and



the data of the name, address, date of birth, and the photo on the integrated circuit of a photographic identification document of the customer, etc.

(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 once that 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 the 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 criteria must be met.

○ Confirm that another specified business operator 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 confirmed that the said customer, etc. is the same as the customer recorded in the said records by receiving a declaration from the customer, etc.

○ Send money to the savings account of the said customer, etc., and then receive a copy of his/her savings passbook on which the information necessary to identify said money transfer is described.

(C) Methods for Customer Verification Using Public Websites

A specified business operator is allowed to verify the 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 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 the identification items of the said legal person, etc., by receiving a 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).

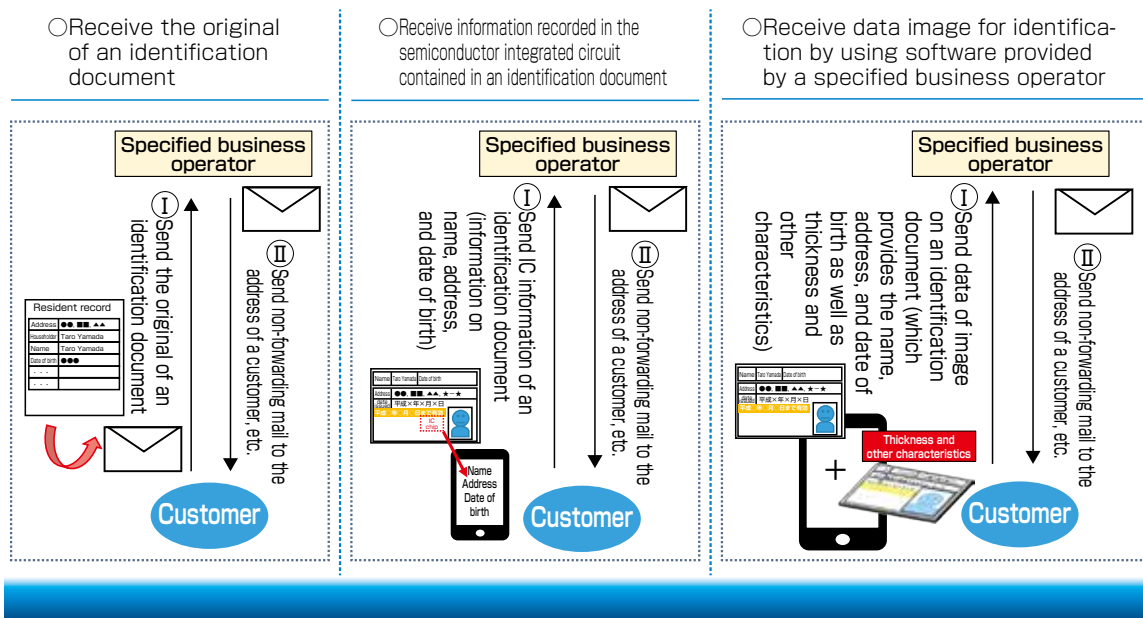
(D) Revision of the Methods for Customer Verification Using Non-Forwarding Mails, etc. for Non-Face-to-Face Transactions (Due to Enter into Force on April 1, 2020)  
The methods to verify the identification items using non-forwarding mails, etc. for non-face-to-face transactions have been revised and upgraded to the following methods (i) to (iii) below.

- (i) Take any of the following measures and send a transaction-related document as a non-forwarding mail to the address of the customer, etc. (see Figure 2-5).
  - Receive the identification document of the customer.
  - Receive the data of the name, address, and date of birth recorded on the integrated circuit of the identification document of the customer.
  - Receive the data of the image of the identification document of the said customer, etc., issued only once that 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).

Figure 2-5

## Article 6, Paragraph (1)(i)(h) (Due to enter into force on April 1, 2020)

Take any of the following measures at the time of non-face-to-face transactions and send documents related to the transactions to the address of customers, etc. by non-forwarding mail.



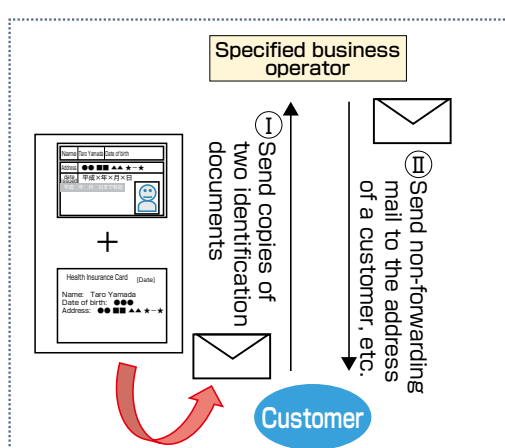
- (ii) Take any of the following measures and send a transaction-related document as a non-forwarding mail to the address of the customer, etc. (see Figure 2-6).
- Receive copies of two kinds of identification documents on which the current address of the customer, etc. is described.
  - Receive a copy 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.

Figure 2-6

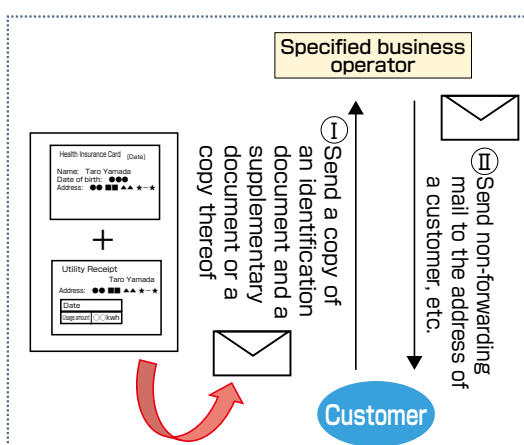
### Article 6, Paragraph (1)(i)(i) (Due to enter into force on April 1, 2020)

Take any of the following measures at the time of non-face-to-face transactions and send non-forwarding mail to the address of customers, etc.

- Receive copies of two identification documents (which show the current address)



- Receive a copy of an identification document (which shows the current address) and a supplementary document (which shows the current address) or a copy thereof



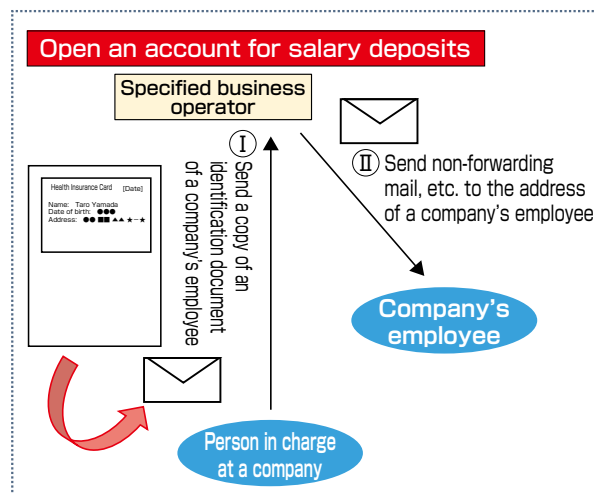
- (iii) Receive a copy of an identification document when conducting a transaction falling under any of the following categories and send a transaction-related document as a non-forwarding mail to the address of the customer, etc. (see Figure 2-7).
- A transaction involving the conclusion of a savings account contract with an employee of a legal person, etc., which is deemed to be low risk for ML/TF (to the extent that such savings account can be confirmed as an account for salary deposits, etc.)
- 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.

Figure 2-7

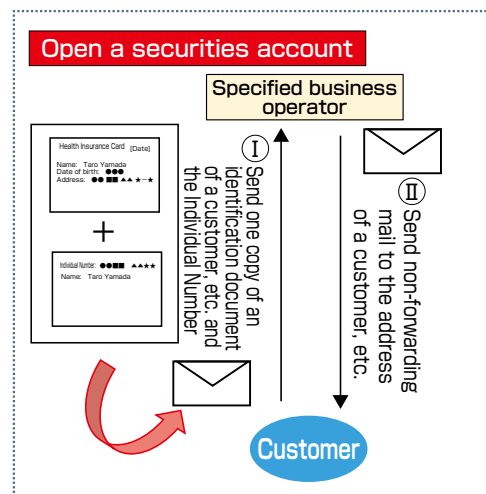
**Article 6, Paragraph (1)(i)(j) (Due to enter into force on April 1, 2020)**

Receive a copy of an identification document at the time of any of the following non-face-to-face transactions and send non-forwarding mail to the address of a customer, etc.

- A transaction involving the conclusion of a savings account contract with an employee of a company, which is deemed to be low risk for ML / TF.



- Contract to allow a customer, etc. to acquire securities for which an Individual Number is provided



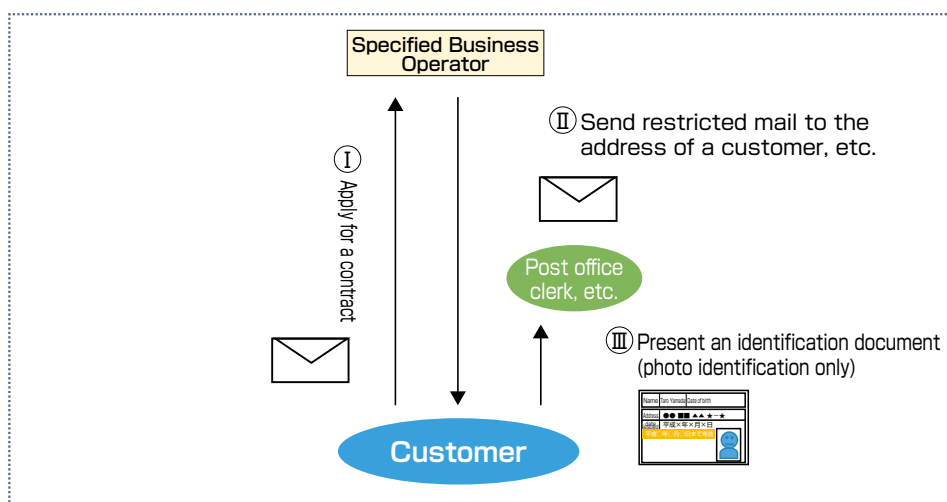
(E) Revision of the Methods for Customer Verification Using Registered Mails (Due to Enter into Force on April 1, 2020)

In the methods for customer verification by sending a transaction-related document to the customer, etc. as mail that can only be received by the addressee him/herself or his/her representative designated by the addressee him/herself, the acceptable identification documents are limited to photographic identification documents presented at the time of delivery only (see Figure 2-8).

Figure 2-8

**Article 6, Paragraph (1)(i)(k) (Due to enter into force on April 1, 2020)**

**Send restricted mail and require that the customer, etc. presents a photo identification document at the time of receipt.**



(F) Transactions for which Simplified CDD Measures are Allowed

- (i) While the Act before its amendment provided a list of transactions for which simplified CDD measures were allowed, such as the conclusion of contracts concerning trusts, the amended Act provides a more comprehensive category for which simplified CDD measures are allowed, including transactions for the purpose of managing a property that needs to be returned to the third party when there is the risk that the customer may fail to protect the said third party.
- (ii) Commodity futures trade contracts with specified business operators using the SWIFT network and verifications or payment instructions made through the SWIFT network have been added to the scope of transactions for which simplified customer management is allowed.

**(4) Amendment of the Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds Following the Typhoon No. 19 of 2019**

In response to the damage from the Typhoon No. 19 of 2019, etc., the Ordinance for En-

enforcement of the Act on Prevention of Transfer of Criminal Proceeds was amended to introduce the following special measures for the victims of the disasters:

- A. To release from the CDD obligation of the specified business operators by designating donations of 2 million yen or less for damage from the Typhoon No. 19 of 2019 (to the extent that such donations are transferred to an account opened only for receiving donations) as a transaction for which simplified customer management is allowed
- B. To allow identification CDD based on the declaration of customers or representatives, etc. who are the victims of the Typhoon No. 19 of 2019 (and have residence, etc. in the areas in which rescue activities under the Disaster Relief Act are conducted) instead of through the normal procedures, when it is impossible to follow the normal procedures because of the loss of identification documents, etc. (however, when it becomes possible to follow the normal procedures of identification CDD, the specified business operators are required to perform identification CDD of said customers or representatives, etc. by following the normal procedures without delay)

## **Paragraph 2 Foreign Exchange Act (excluding the measures described in Paragraph 2 of Section 3)**

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

The purpose of the Act is to enable the proper development of foreign transactions and the maintenance of peace and security in Japan and in the international community by implementing the minimum necessary management and coordination for foreign transactions to ensure that the equilibrium in the balance of international payments and the stability of Japanese currency are maintained, as well as to contribute to the sound development of the Japanese economy, based on the freedom of foreign exchange, foreign trade, and other foreign transactions.

### **2. Confirmation of Identity at the Time of Executing Contracts for Specified Exchange Transactions and Capital Transactions (Article 18, Article 18-5, Article 22-2, and Article 22-3)**

Since the Act requires that banks (including banks and other financial institutions set forth by cabinet order) confirm the identities of customers, etc. to implement measures such as asset freezing effectively, banks and funds transfer service providers are obligated to confirm identity when conducting a specified exchange transaction. Financial institutions (which refer to banks, trust companies, type I financial instruments business operators, and type II financial instruments business operators) and currency exchange service providers are obligated to confirm identity when executing a contract for a capital transaction with a customer or providing a currency exchange service. When confirming identity, they need to confirm the name, address or residence, and date of birth of a customer by requesting that he/she presents a driver's license or by other means if said customer is a natural person, and to confirm the company name and location of the principal place of business if said customer is

a legal person. If a representative of a company conducts a specified exchange transaction, etc. for the company, or otherwise a natural person who is in charge of a specified exchange transaction, etc. with a bank or any other business operator is not the customer him/herself, financial institutions and currency exchange service providers are required to confirm the identify of such natural person, in addition to the identity of the customer.

### **3. Preparation and Retainment of Identity Confirmation Record (Article 18-3, Article 18-5, Article 22-2, and Article 22-3)**

Whenever financial institutions and currency exchange service providers confirm identify, they are required to prepare an identity confirmation record and retain the record for seven years from the date of the end of the transaction.

### **4. Rectification Measures (Article 18-4, Article 18-5, Paragraph 2 of Article 22-2, Article 22-3, and Article 70-2)**

The Act includes provisions for order to rectify violations committed in the course of performing the obligation to confirm identity and other obligations at the time of executing a contract for a specified exchange transaction or a capital transaction.

Any person who violates an order for rectification may be subject to imprisonment for up to two years and/or a fine of up to 3 million yen.

## **Section 2 The Legislative Regime Primarily for Criminalization of Money Laundering and Forfeiture of Criminal Proceeds, etc.**

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

The Act on Punishment of Organized Crimes was enacted in response to the requirement to expand 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 came into force in February 2000. In terms of criminal proceeds regulations, this law has expanded the scope of predicate offences of the concealment of criminal proceeds, etc. to include certain serious crimes. It also provides for the confiscation and collection of an equivalent value of criminal proceeds, etc.

#### **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 to control its business management through the exercise of authority or influence by a person who has obtained a status as a shareholder of such legal person, etc., using illicit proceeds (proceeds from certain crimes, proceeds from certain drug-related crimes, assets acquired through ownership or the disposition of those pro-



ceeds, or assets including such assets and other assets).

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

The following acts are criminalized by this article: (i) The act of disguising facts with respect to the 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 an equivalent value provided in the Act on Punishment of Organized Crimes is left to the discretion of the court, in principle, which is the same as in the system provided for by the Penal Code. However, it has been strengthened compared to the system in the 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, in addition to tangible objects, and assets obtained as the fruit of criminal proceeds, and preservation measures have been established.

As one of the preservation measures relating to a restraining order for confiscation, 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 in which it is possible that an offender who acquired assets that are equivalent to criminal proceeds will detect the initiation of investigation and so dispose of the assets, the judge may prohibit the disposition of the assets upon the request of judicial police officers, etc., even before the institution of a prosecution for a period of 30 days or less (the period may be renewed upon the request of the prosecutor). For a restraining order for collection of equivalent value, there is a similar provision to that for a restraining order for confiscation. (However, only the prosecutor can request a temporary restraining order before the institution of a 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 was enforced in July 1992. This law contains two items that relate to measures against drug crime proceeds, as described below.

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

The Anti-Drug Special Provisions Law criminalizes 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 an 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.

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

## **Section 3 The Legislative Regime Primarily for Prevention of Terrorism Financing**

### **Paragraph 1 The Act on Punishment of Financing to Offences of Public Intimidation**

The Act on Punishment of Financing to Offences of Public Intimidation was established for the purpose of developing domestic laws necessary to comply with the International Convention for the Suppression of the Financing of Terrorism and to respond to requests from the international community to implement measures to prevent terrorism financing. It came into force in July 2002.

The Act defines murder and other criminal acts carried out with the aim of intimidating the public, national or local governments, or foreign governments and other entities as “an act of public intimidation,” and it provides for punishments for criminal acts, including the provision of funds for acts of public intimidation or other profits which will benefit such acts.

Providing funds to persons who provide funds to persons who intend to commit an act of public intimidation (“prospective terrorists”) is also subject to punishment under the Act.

The scope of prospective terrorists under the Act includes but is not limited to persons subject to asset freezing and other measures under the Foreign Exchange Act and International Terrorist Asset-Freezing Act.

### **Paragraph 2 Foreign Exchange Act**

In response to the United Nations Security Council Resolution (No. 1267), which requires assets provided to the Taliban to be frozen or that other measures be taken at the time of foreign transactions, and the United Nations Security Council Resolution (No. 1373) adopted after the September 11 terrorist attacks in 2001, the Foreign Exchange Act requires that asset-freezing measures be implemented, with the approval of the competent minister, against persons who make or receive payments or perform capital transactions (including deposit transactions, trust transactions, and loan agreements) with individuals or entities subject to asset freezing or other measures and who have been designated by a public notice of the Ministry of Foreign Affairs.

### **Paragraph 3 International Terrorist Asset-Freezing Act**

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Together with the measures under the Foreign Exchange Act, asset freezing and other measures under the International Terrorist Asset-Freezing Act secure the performance of the obligations established in the above resolutions by requiring that approval be obtained from a prefectural public safety commission ("public safety commission") for domestic transactions made in relation to international terrorists, etc. by individuals or entities subject to asset freezing and other measures in compliance with the United Nations Security Council Resolution No. 1267, etc.

The Act requires that individuals and entities named as persons subject to asset freezing and other measures in the public notice under the Act obtain approval of a public safety commission if they engage in donation or loan of money or other similar acts. The Act also provides that the public safety commissions are entitled to order said individuals and entities to submit a portion of the assets owned by them and to retain these assets temporarily.

# Chapter 3

## The Operational Status of the Suspicious Transactions Reporting System

The Act on Prevention of Transfer of Criminal Proceeds requires that specified business operators file a report to the competent administrative authorities when a transaction is suspected of being related to criminal proceeds (lawyers, Judicial Scriveners, certified administrative procedures specialists, certified public accountants, and certified public tax accountants are not subject to this obligation, and hereinafter the same applies in this Chapter).

### Section 1 System Outline

#### 1. Purpose

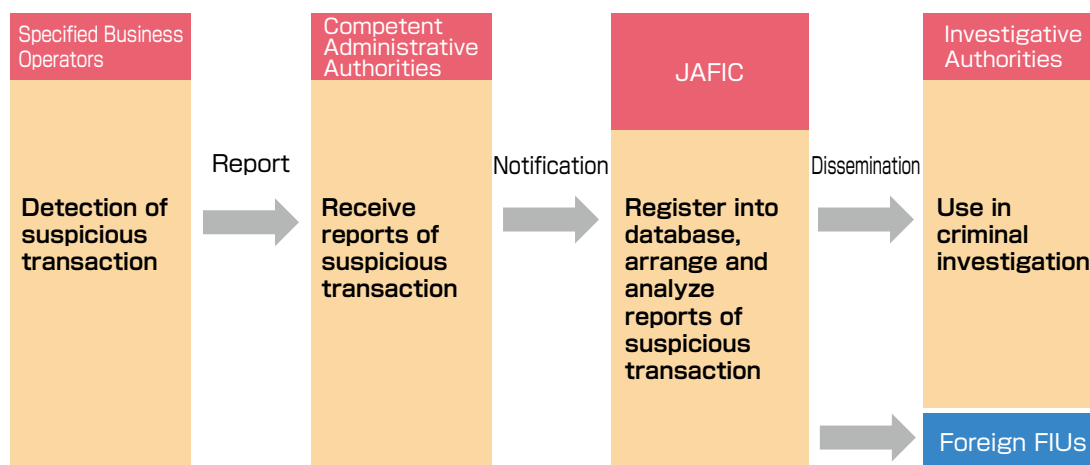
The suspicious transaction reporting system aims to support investigations of money laundering and its predicate offences, as well as terrorist financing, to prevent the misuse of financial or other services provided by specified business operators and to enhance trust in business activities.

#### 2. Flow of Suspicious Transaction Reporting

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

The investigative authorities utilize STRs for investigations on ML crimes and their predicate

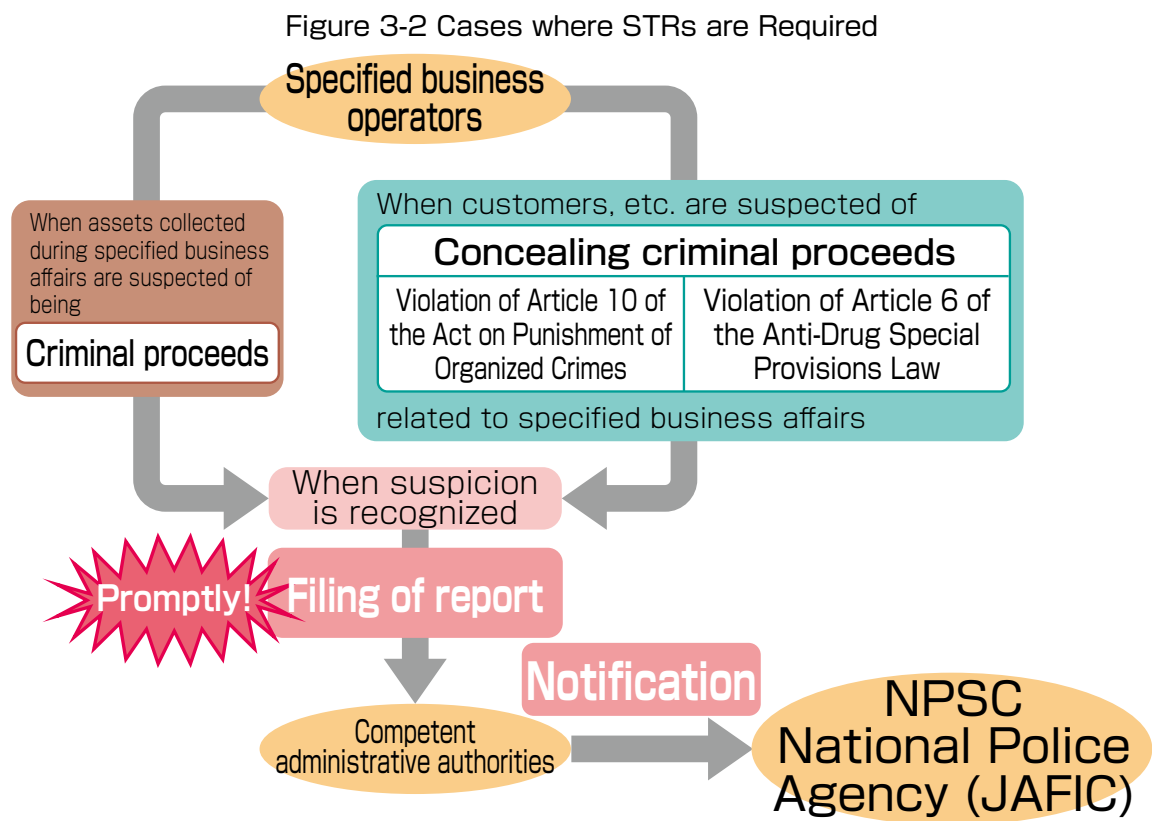
Figure 3-1 Flow of STRs from Specified Business Operators through JAFIC to the Investigative Authorities



offenses and inquiries of irregularities. JAFIC also provides foreign FIUs with information on cross-border transactions as necessary, in order to facilitate their analyses or investigations 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 they suspect that assets they have received could be criminal proceeds, or that a customer, etc. could commit an act that constitutes a crime 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.



**4. Identification of Suspicious Transactions**

The Act on Prevention of Transfer of Criminal Proceeds provides 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 the verification at the time of the transaction, the transaction method 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, the 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 are subject to the reporting.

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

## Section 2 Situation of STR Filings, etc.

### 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 a year were received 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, the 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 this increasing trend is still being maintained. The number of reports received

Figure 3-3 Trend Diagram of Number of STRs (2010–2019)



Note: “Number of Reports Received” is the number of the reports received by JAFIC.

in 2019 was 440,492, increasing by 23,027 (5.5%) on the previous year.

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

- The spread of compliance culture among the general public has encouraged financial institutions' efforts to apply stringent monitoring for their measures against anti-social forces and illegal money transfers.
- The effects of education provided on the need to report suspicious transactions, such as seminars, held for financial institutions and others.

The number of STRs deleted in 2019 was 52,849 and the number of STRs stored as of the end of December 2019 was 4,759,089.

## 2. Number of Received Reports by Business Types

The number of suspicious transaction reports that each category of business operator filed in 2019 is shown in Table 3-1. Banks, etc. had the highest number of reports, of 344,523 or 78.2% of all reports, followed by credit card operators (24,691 or 5.6%) and Shinkin banks and credit cooperatives (19,487 or 4.4%) (see Table 3-1).

Table 3-1 Number of Received STRs by Each Business Type

Category \ Year	2015	2016	2017	2018	2019
	Number of reports	Number of reports	Number of reports	Number of reports	Number of reports
Financial Institutions etc.	385,639	387,399	384,331	401,155	415,299
Depository Institutions	366,965	369,936	363,347	363,380	366,973
Banks etc.	351,009	354,346	346,595	346,014	344,523
Shinkin Banks and Credit Cooperative	13,188	13,070	13,259	14,375	19,487
Labour Banks	371	453	476	467	371
Norinchukin Banks etc.	2,397	2,067	3,017	2,524	2,592
Insurance Companies	2,918	2,310	2,382	2,671	2,876
Financial Instruments Business	8,951	8,528	8,436	13,345	17,116
Money Lending Business	4,427	5,263	7,512	12,396	17,316
Fund Transfer Business Operators	585	539	1,282	1,391	3,913
Virtual Assets Exchange Service Providers			669	7,096	5,996
Futures commission merchant	9	16	17	50	256
Currency Exchanging Operators	1,633	627	490	649	712
Electronic Monetary Claim Recording Institutions	0	3	4	10	4
Others	151	177	192	167	137
Financial Leasing Operators	160	214	109	222	270
Credit Card Operators	13,666	13,436	15,448	15,114	24,691
Building lots and buildings transaction business operator	9	8	7	8	6
Dealers in Precious Metals and Stones	10	27	146	952	217
Postal Receiving Service Providers	24	6	2	6	4
Telephone Receiving Service Providers	0	1	0	0	0
Telephone Forwarding Service Providers	0	0	0	8	5
Total	399,508	401,091	400,043	417,465	440,492

Note: The number of STRs received for virtual asset exchange service providers is the number of STRs received after April 2017, which is when they were included in the specified business operators.



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

Table 3-2 shows the number of STRs filed by filing method (electronically filing through e-Gov or filing by other means, such as sending documents, etc. to the competent administrative authorities).

Table 3-2 Number of Received STRs Classified by Method

Year Method	2015		2016		2017		2018		2019	
	Number of reports	%	Number of reports	%	Number of reports	%	Number of reports	%	Number of reports	%
Electronic Application	366,843	91.8%	387,724	96.7%	391,657	97.9%	410,964	98.4%	436,291	99.0%
Other Methods	32,665	8.2%	13,367	3.3%	8,386	2.1%	6,501	1.6%	4,201	1.0%
Total	399,508	100.0%	401,091	100.0%	400,043	100.0%	417,465	100.0%	440,492	100.0%

The National Police Agency will continue to work to further publicize online reporting at all opportunities in order to reduce the reporting-obligation burden on specified business operators.

## Section 3 Dissemination and Use of Information on STRs

### Paragraph 1 Dissemination

The NPSC and NPA collect, arrange, and analyze all STRs, and they disseminate STRs that are useful for investigations of money laundering, predicate offences, or other offences to LEAs.

The number of STRs disseminated to LEAs has continued to grow every year. The number of STRs disseminated to LEAs in 2019 was 467,762 (a record high), an increase of 7,017 (1.5%) from the previous year (see Table 3-3).

JAFIC utilizes the following information for analyses of criminal organizations, whose fund-raising methods have diversified remarkably in recent years, as well as analyses of crimes relating to fraud, illegal stays, and drugs:

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

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

The number of analysis reports disseminated to LEAs in 2019 is shown in Table 3-3.

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

	2015	2016	2017	2018	2019
Information on STRs	435,055	443,705	446,085	460,745	467,762
Results of Analysis	2,798	5,381	7,163	8,259	8,676

In 2019, 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 Law Enforcement Authorities (LEAs)**

### **1. Prefectural Police Departments**

Prefectural police departments use STRs to discover criminal proceeds, analyze criminal organizations, and investigate criminal proceeds-related offences.

The number of STRs used by prefectural police departments for investigations in 2019 was 307,786 (see Table 3-4).

**Table 3-4 Number of STRs Used for Investigative Purposes, etc.**

	2015	2016	2017	2018	2019
Number of STRs used in investigation	265,346	284,914	429,200	314,296	307,786

The number of cases cleared that were initiated based on STRs and closed with arrests ("STR-initiated cases") was 1,123 in 2019, and the number of arrests made by using STRs in the course of performing investigations already underway ("STR-use cases") was 1,102. The number of STR-initiated cases by crime category is shown in Table 3-5, and the number of STR-use cases is shown in Table 3-6.

Table 3-5 Number of STR-initiated Cases by Type of Crime

STR-initiated Cases by Type of Crime	Year	2015	2016	2017	2018	2019
(i) Fraud-related crimes		900	925	933	1004	933
Violation of Act on Prevention of Transfer of Criminal Proceed		397	429	511	636	593
Fraud		503	496	421	366	338
Computer fraud		0	0	1	2	2
(ii) Illegal stays		68	42	60	26	53
Violation of Immigration Control Act		68	42	60	26	53
(iii) Drug crimes		38	41	42	42	39
Violation of Stimulants Control Act		31	33	35	34	35
Violation of Anti-Drug Special Provisions Law		3	4	4	2	4
Violation of Cannabis Control Act		0	3	2	6	0
Violation of Act on Ensuring the Quality, Efficacy and Safety of Drug and Medical devices, etc.		4	1	1	0	0
Violation of Narcotics and Psychotropics Control Act		0	0	0	0	0
(iv) Violation of Act on Punishment of Organized Crimes		23	21	17	17	34
Concealment of criminal proceeds, etc.		13	16	13	12	20
Receipt of criminal proceeds, etc.		10	5	3	5	14
Control of management of companies, etc.		0	0	1	0	0
(v) Counterfeiting crimes		27	19	12	7	15
Forgery of signed public documents		8	3	4	3	8
Illegal preparation and supply of false entries in original electromagnetic notarized deed		12	8	4	4	5
False statement on licenses		5	8	3	0	2
Others		2	0	1	0	0
(vi) Loan sharks		6	14	11	8	13
Violation of Money Lending Business Act		4	8	9	7	11
Violation of Act Regulating the Receipt of Contributions, Receipt of Deposits, and Interest Rates		2	6	2	1	2
(vii) Gambling-related offences		2	5	2	1	0
Habitual gambling		0	2	1	1	0
Operating a gambling site for profit		2	2	1	0	0
Gambling		0	1	0	0	0
(viii) Entertainment business-related offences		4	4	4	3	4
Violation of Amusement Business Act		1	2	0	3	4
Distribution of obscene materials		3	2	4	0	0
(ix) Other criminal offences		15	11	8	5	12
Theft		3	10	7	0	5
Violence		5	0	1	5	4
Felony		1	0	0	0	0
Others		6	1	0	0	3
(x) Other special criminal offences		13	9	8	11	20
Violation of Trademark Act		1	1	2	1	3
Violation of Worker Dispatching Act		4	0	0	2	3
Violation of Banking Act		4	3	1	1	2
Violation of Act on Prevention of Misuse of Mobile Phones		0	1	0	2	2
Violation of Copyright Act		0	1	0	1	1
Others		4	3	5	4	9
Total		1,096	1,091	1,097	1,124	1,123

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.

Note 3: Other types of criminal offences in the Table are tabulated and counted according to the crime statistics.

Table 3-6 Number of STR-use Cases by Type of Crime

STR-use Cases by Type of Crime	Year	2015	2016	2017	2018	2019
(i) Fraud-related crimes		135	211	391	400	493
Violation of Act on Prevention of Transfer of Criminal Proceed		57	73	181	208	275
Fraud		78	136	206	188	215
Computer fraud		0	2	4	4	3
(ii) Illegal stays		2	8	16	50	36
Violation of Immigration Control Act		2	8	16	50	36
(iii) Drug crimes		33	36	64	89	175
Violation of Stimulants Control Act		21	31	51	66	132
Violation of Anti-Drug Special Provisions Law		2	3	5	4	6
Violation of Cannabis Control Act		2	0	6	12	29
Violation of Act on Ensuring the Quality, Efficacy and Safety of Drug and Medical Devices, etc.		7	2	1	3	4
Violation of Narcotics and Psychotropics Control Act		1	0	1	4	4
(iv) Violation of Act on Punishment of Organized Crimes		13	15	15	18	37
Concealment of criminal proceeds, etc.		9	11	8	12	20
Receipt of criminal proceeds, etc.		4	4	7	6	17
Control of management of companies, etc.		0	0	0	0	0
(v) Counterfeiting crimes		7	7	15	18	19
Forgery of signed public documents		2	1	5	11	7
Illegal preparation and supply of false entries in original electromagnetic notarized deed		5	5	9	6	9
False statement on licenses		0	1	1	0	2
Others		0	0	0	1	1
(vi) Loan sharks		5	5	10	4	10
Violation of Money Lending Business Act		5	4	9	1	6
Violation of Act Regulating the Receipt of Contributions, Receipt of Deposits, and Interest Rates		0	1	1	3	4
(vii) Gambling-related offences		5	2	4	7	9
Habitual gambling		2	2	3	2	6
Operating a gambling site for profit		3	0	1	4	3
Gambling		0	0	0	1	0
(viii) Entertainment business-related offences		4	9	13	12	16
Violation of Amusement Business Act		3	3	12	11	16
Distribution of obscene materials		1	6	1	1	0
(ix) Other criminal offences		34	51	90	150	244
Theft		15	16	33	45	102
Violence		6	14	37	65	76
Felony		5	6	9	15	25
Others		8	15	11	25	41
(x) Other special criminal offences		15	21	27	37	63
Violation of Trademark Act		1	0	1	6	5
Violation of Worker Dispatching Act		1	0	1	0	1
Violation of Banking Act		3	1	1	1	1
Violation of Act on Prevention of Misuse of Mobile Phones		1	2	1	4	3
Violation of Copyright Act		1	2	1	2	2
Others		8	16	22	24	51
Total		253	365	645	785	1,102

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.

Note 3: Other types of criminal offences in the Table are tabulated and counted according to the crime statistics.

The following describes each type of violation in the STR-initiated cases and STR-use cases counted by type of crime.

- ( i ) The number of STR-initiated cases of fraud-related crimes (fraud and violations of the Act on Prevention of Transfer of Criminal Proceeds, etc.) was 933 cases, comprising 83.1% of all the STR-initiated cases, and the number of STR-use cases of fraud-related crimes was 493 cases, comprising 44.7% of all the STR-use cases, each of which is the largest number. They included bank passbook smuggling, fraudulent receipt of welfare benefits and other benefits, fraud in relation to sale of concert tickets and "international romance scams" in which suspects pretend to be in a romantic relationship with victims or gain their affection to take their money.
- ( ii ) The number of STR-initiated cases of illegal stays (violations of the Immigration Control Act) was 53 cases and the number of STR-use cases of illegal stays was 36 cases, which included cases of foreign nationals who had overstayed their visas, who had worked without working qualifications, and who have forged residence cards.
- ( iii ) The number of STR-initiated cases of drug crimes (violation of the Stimulants Control Act and the Anti-Drug Special Provisions Law, etc.) was 39 cases and the number of STR-use cases of drug crimes was 175 cases, which included the possession, assignment and/or receipt, or the organized sale or purchase of illegal drugs, etc.
- ( iv ) The number of STR-initiated cases violating the Act on Punishment of Organized Crimes (concealing and receiving criminal proceeds) was 34 cases and the number of STR-use cases violating the Act on Punishment of Organized Crimes was 37 cases, which included concealing and receiving criminal proceeds obtained through fraud, extortion, etc.
- ( v ) The number of STR-initiated cases of counterfeiting crimes (use of forged official documents with a seal, false entries in the original of an electromagnetic notarized deed and the use of such deed, etc.) was 15 cases and the number of STR-use cases of counterfeiting crimes was 19 cases, which included opening a bank account using a forged driver's license, obtaining financing using a forged official document, etc.
- ( vi ) The number of STR-initiated cases of loan sharks (violation of the Money Lending Business Act and the Act Regulating the Receipt of Contributions, Receipt of Deposits, and Interest Rates) was 13 cases and the number of STR-use cases of loan sharks was 10 cases, which included arrests for unregistered money lending business and loan-sharking.
- ( vii ) The number of STR-use cases of gambling-related offences (habitual gambling and running of a gambling place for the purpose of gain) was 9 cases, which included arrests for habitual gambling involving arcade game machines and baseball gambling by organized crime group members, etc.
- ( viii ) The number of STR-initiated cases of entertainment business-related offences (violation of Act on Control and Improvement of Amusement Business, etc.) was 4 cases and the number of STR-use cases of entertainment business-related offences was 16 cases, which included the operation of adult entertainment shops in prohibited ar-

eas, etc.

- (ix) The number of STR-initiated cases of other criminal offences (theft, violence, felony, etc.) was 12 cases and the number of STR-use cases of other criminal offences was 244 cases, which included unauthorized withdrawals of money from ATMs using another person's cash card and murder by a senior member of an organized crime group, etc.
- (xi) The number of STR-initiated cases of other special criminal offences (violation of the Trademark Act or the Banking Act, etc.) was 20 cases and the number of STR-use cases was 63 cases, which included violations of the Trademark Act through the possession of imitation products without the approval of the trademark licensor for the purpose of sale and violations of the Banking Act through illegally sending money overseas without a license, etc.

## **2. 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 other activities, including monitoring the flow of funds of Boryokudan and other crime organizations and examining the actual state of organized crime.

## **3. The Narcotics Control Department**

The Narcotics Control Department in the Health, Labour and Welfare Ministry utilizes STRs in identifying criminals and transferred criminal proceeds and in 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 illegal drug trafficking.

## **4. The Japan Coast Guard**

The Japan Coast Guard utilizes STRs to analyze relationships with parties that are reported to have a high risk of committing a crime, as well as to promote the investigation of organized smuggling of restricted items and of illegal immigrants, thus striving to take thorough frontline measures to prevent such crimes.

## **5. 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.

## **6. Customs**

Customs creates a database of STRs that it shares with customs offices across the country. STRs can be used for investigating violations 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 clear illegal drug trafficking cases, for example, and it is taking strong steps to stop the smuggling of items that may threaten public safety and security.

#### **7. 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 into misconduct that impairs the fairness of the financial markets, such as the use of fraudulent securities reports (fraudulent accounting), insider trading, market manipulation, and other fraudulent methods.



# Chapter 4

## 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 the following activities: 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 in the name of another person, although all activities to transfer criminal proceeds are not covered.

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

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

### Section 1 Cleared Cases of Money Laundering

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

##### 1. Number of Cleared Cases

There were 528 cases cleared as money laundering under the Act on Punishment of Organized Crimes in 2019, consisting of 378 cases of the concealment of criminal proceeds<sup>(Note)</sup> and 150 cases of the receipt of criminal proceeds. The total number of the cases represented an increase of 24 cases (4.8%) on the previous year (see Table 4-1).

(Note) Criminal proceeds means proceeds from criminal activities, assets derived from criminal proceeds, or assets mixed with other assets (Article 2, Paragraph 2 to 4 of the Act on Punishment of Organized Crimes).

Table 4-1 Number of Arrests Made for Money Laundering under the Act on Punishment of Organized Crimes

Category \ Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Management Control through Illicit Proceeds (Article 9)	1 (0)	1 (0)	0 (0)	2 (0)	1 (1)	2 (0)	0 (0)	2 (0)	1 (0)	0 (0)
Concealment of Criminal Proceeds, etc. (Article 10)	139 (46)	150 (43)	158 (27)	171 (35)	180 (26)	234 (43)	268 (45)	240 (22)	377 (36)	378 (32)
Receipt of Criminal Proceeds, etc. (Article 11)	65 (44)	92 (38)	80 (28)	99 (40)	112 (28)	145 (46)	112 (25)	111 (24)	126 (26)	150 (19)
Total	205 (90)	243 (81)	238 (55)	272 (75)	293 (55)	381 (89)	380 (70)	353 (46)	504 (62)	528 (51)

Note: The numbers in brackets represent the number of cases conducted by Boryokudan (meaning members and quasi-members of organized crime groups and other persons affiliated thereto; hereinafter, the same).

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 206, followed by 167 cases of fraud, 30 cases of computer fraud, and 28 cases of loan sharking, etc.

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

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

Instances of the concealment of criminal proceeds in 2019 consisted largely of cases in which offenders attempted to transfer funds to bank accounts in the names of other persons. Bank accounts constitute 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, selling stolen goods, etc. using a false name, and so on.

#### **[Case 1] Concealment of criminal proceeds related to a special fraud case**

A male office worker and others sent a false document for the payment of fees to receive a prize by using the cash-on-delivery service of the Japan Post to steal money from the victim. They made the victim transfer the money to an account in another person's name through employees of the Japan Post. This case was cleared as a violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds, etc.).  
(Yamaguchi, in March)

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

A delivery man and others hid cash and watches stolen from houses in a coin locker. This case was cleared as a violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds, etc.)

(Osaka, in July)

**[Case 3] Concealment of criminal proceeds related to a fraud case**

An unemployed man and others sold a passenger car that they had stolen by deceiving the victim and sold the car by pretending to be the person on a copy of a forged driver's license submitted to the buyer. This case was cleared as a violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds, etc.).

(Niigata, in July)

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

Cases involving the receipt of criminal proceeds cleared in 2019 included cases where offenders received criminal proceeds they gained from prostitution and gambling crimes directly or via 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 violation of the Anti-Prostitution Act**

A male company officer and others received money that was transferred to an account in the name of the company managed by him as a consultation fee, while knowing that the money was the proceeds from prostitution at an illegal adult entertainment shop. This case was cleared as a violation of the Act on Punishment of Organized Crimes (receipt of criminal proceeds, etc.).

(Hyogo, in April)

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

A male company officer purchased cosmetics, etc. for value from a foreign woman, while knowing that the cosmetics, etc. were stolen properties. This case was cleared as accepting stolen properties for value and a violation of the Act on Punishment of Organized Crimes (receipt of criminal proceeds, etc.).

(Gifu, in July)

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

There were a total of 51 cases cleared as money laundering related to Boryokudan in 2019,

consisting of 32 cases of concealment of criminal proceeds and 19 cases of receipt of criminal proceeds. This number accounts for 9.7% of all cases cleared as money laundering under the Act on Punishment of Organized Crimes in 2019.

Looking at ML crimes related to Boryokudan members by predicate offence, there were 16 fraud cases, 10 loan shark cases, 7 gambling cases, 6 theft cases, and 6 extortion cases. This shows that Boryokudan commits a variety of offences and launders 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 11 fraud cases, 9 loan shark cases, 5 extortion cases, and 4 theft cases. The modus operandi is that criminal proceeds obtained by fraud, etc. are concealed in a bank account opened in the name of another person, and that proceeds obtained through theft and other crimes are sold using false names.

##### **[Case 6] Concealment of criminal proceeds related to a violation of the Act Regulating the Receipt of Contributions, the Receipt of Deposits, and Interest Rates by a senior member of an organization under the Kobe Yamaguchi-gumi**

A senior member of an organization under the Kobe Yamaguchi-gumi loaned money and received a part of interest payment paid in an amount exceeding the statutory interest rate at a bank account in another person's name. This case was cleared as a violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds, etc.).  
(Kochi, in June)

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

Cleared cases of receipt of criminal proceeds consisted of 7 gambling cases, 5 fraud cases, and 2 theft cases. These cases include the receipt of proceeds gained from gambling in the name of protection rackets.

##### **[Case 7] Receipt of criminal proceeds related to a case of operating a gambling site for profit by a member of organization under the Sumiyoshi-kai**

A man who is a member of an organization under the Sumiyoshi-kai received cash in the name of a protection racket from the owners of casino shops, while knowing that the money was proceeds from gambling. This case was cleared as a violation of the Act on Punishment of Organized Crimes (receipt of criminal proceeds, etc.).  
(Metropolitan Police Department, in August)

### **4. Money Laundering conducted by Foreign Visitors to Japan**

In cleared cases of money laundering under the Act on Punishment of Organized Crimes in 2019, there were 71 cases related to foreign visitors to Japan, representing 13.4% of all

cases. They consisted of 49 cases of concealment of criminal proceeds and 22 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 28 fraud cases, 14 theft cases, 13 violations of the Immigration Control and Refugee Recognition Act, and 11 computer fraud cases. 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 in the names of other people, and sales of stolen items, etc. under false names.

**【Case 8】 Concealment of criminal proceeds related to a violation of the Banking Act by a Burmese group**

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

(Metropolitan Police Department, Miyazaki, in February)

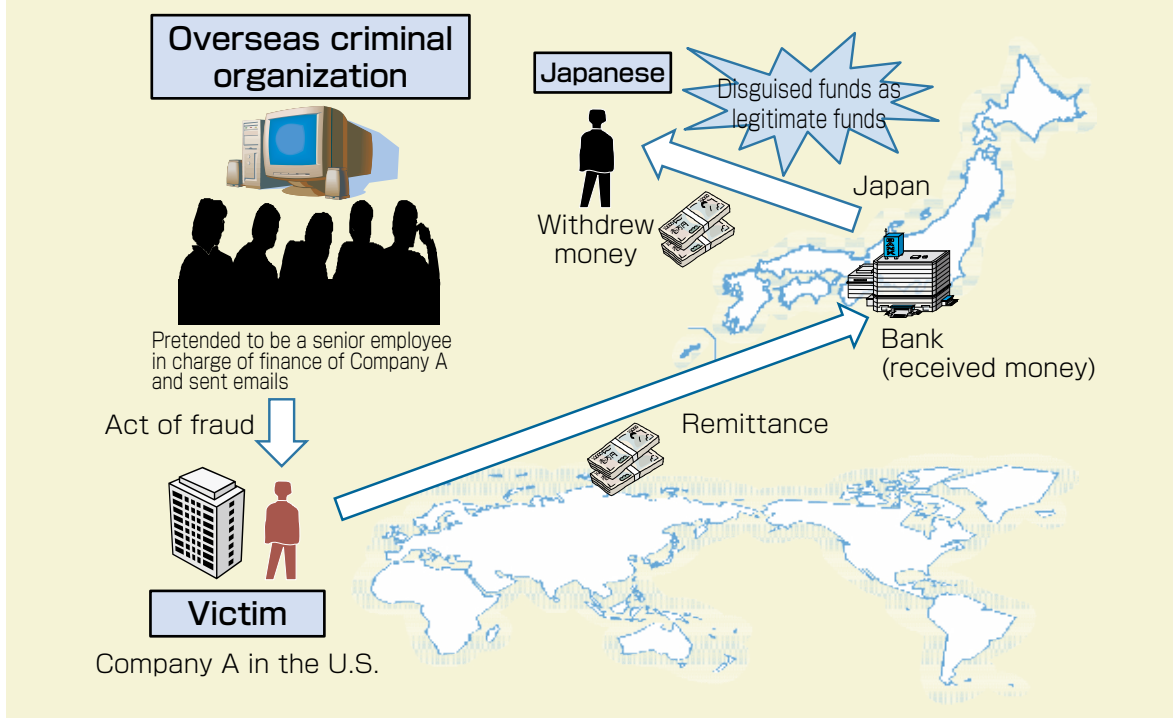
## **5. Cases of Cross-Border Money Laundering**

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

**[Case 9] Concealment of criminal proceeds related to an international business email fraud scheme by a Japanese man**

A Japanese driver received money in an account opened in Japan managed by him from the fraud victim, which was a company in the US that he had deceived by sending fraudulent business emails. He disguised the money as legal business proceeds in order to withdraw money from the account. This case was cleared as a violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds, etc.).

(Saitama, 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 2019 was 9 cases (see Table 4-2).

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

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

**Table 4-2 Number of Arrests Made for Money Laundering under the Anti-Drug Special Provisions Law**

Category \ Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Concealment of drug-related criminal proceeds, etc. (Article 6)	8 (4)	8 (3)	8 (2)	6 (6)	5 (3)	5 (3)	5 (4)	7 (3)	5 (2)	8 (6)
Receipt of drug-related criminal proceeds, etc. (Article 7)	1 (1)	0 (0)	3 (2)	4 (4)	2 (2)	3 (2)	3 (2)	1 (1)	2 (1)	1 (1)
Total	9 (5)	8 (3)	11 (4)	10 (10)	7 (5)	8 (5)	8 (6)	8 (4)	7 (3)	9 (7)

Note: The numbers in brackets represent the number of cases conducted by Boryokudan.

#### **[Case 10] Concealment of drug-related criminal proceeds related to the trafficking of stimulants**

A trafficker sold stimulants using Letter Pack services, etc. and deposited the payments for the drugs from his customers in an account opened in the name of another person. This case was cleared as a violation of the Anti-Drug Special Provisions Law (concealment of drug-related criminal proceeds).  
(Okinawa, in February)

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

It is important to deprive criminals of criminal proceeds to prevent them from using these proceeds to maintain and expand the powers of criminal organizations and to invest in future criminal activities. The confiscation and collection of equivalent value of criminal proceeds are conducted based on a court order. To ensure that criminal proceeds are not concealed or spent before the order is given, the police use a system called a Temporary Restraining Order for Confiscation before Institution of Prosecution (hereafter referred to as a 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 2019 (on the request of judicial police officers) was 169 (a decrease of 37 (18.0%) on the previous year) (see Table 4-3).



Table 4-3 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
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
2019	169(14)	¥348,965,441	Gold bullion: 414 Poker game machine: 9

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.

A breakdown of this figure by type of predicate offence includes 30 gambling cases, 25 theft cases, 25 cases of an unlicensed entertainment business, 21 illegal employment cases, 19 fraud cases, and 12 prostitution 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, use this system effectively to prevent criminal organizations from utilizing criminal proceeds. The police also actively make use of Temporary Restraining Orders in order to ensure the enforcement of confiscation orders for the purpose of the recovery of a 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 2019 include many orders against theft, gambling, and unlicensed entertainment businesses. Orders were also issued for monetary claims making use of the Act on Punishment of Organized Crimes, under which monetary claims are subject to confiscation. Examples of monetary claims confiscated include claims on deposits and claims for unpaid salaries. In addition, since the 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 Crimes, the cases included 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 special fraud and theft cases**

A woman, who claimed to be a graphic designer, and others deceived victims to take their ATM cards by pretending to be police officers. A Temporary Restraining Order was issued against the 36.92 million yen they stole from ATMs using the cards.  
(Yamagata, in February)

**[Case 12] Temporary Restraining Order against proceeds from habitual gambling**

A man and others ran a game machine gambling business by installing game machines in a store to allow customers to gamble. A Temporary Restraining Order was issued against the approximately 2.97 million yen proceeds they obtained from habitual gambling.

(Chiba, in February)

**[Case 13] Temporary Restraining Order against proceeds from a violation of the Act on Control and Improvement of Amusement Business**

A company officer and others ran an adult entertainment shop without a license. A Temporary Restraining Order was issued against approximately 1.02 million yen as the proceeds they obtained in violation of the Act on Control and Improvement of Amusement Business.

(Fukushima, in August)

**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 2019 (on the request of judicial police officers) was 8 (see Table 4-4).

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

**Table 4-4 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 (excluding movable properties)
2015	14(10)	¥37,318,473	
2016	16(12)	¥105,019,479	Claims on gold bullion: 0.85054g Claims on platinum bullion: 27.99112
2017	11(0)	¥2,302,673	
2018	17(5)	¥48,408,554	Foreign currency: US\$ 1,000
2019	8(1)	¥4,153,977	Foreign currency: US\$ 1,800 TWD 72 MYR 95.6

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.

**[Case 14] Temporary restraining before prosecution against proceeds from the trafficking of cannabis**

In a case in which men who were trafficking cannabis were arrested in accordance with the Anti-Drug Special Provisions Law (illegal import business, etc.), a Temporary Restraining Order was issued against approximately 1.4 million yen in deposits that they had obtained from trafficking cannabis.  
(Osaka, Akita, in March)

## 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 the 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 4-5.

**Table 4-5 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
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
2018	65	184,210	36	545,123	101	729,333

Note 1: Data is based on materials prepared by the Ministry of Justice.

Note 2: The unit is thousands of yen (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 on 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 the application of Provisions of Confiscation and Collection of Equivalent Value

ue under the Anti-Drug Special Provisions Law in general court procedures (first trials) are shown in the following Table 4-6.

**Table 4-6 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
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
2018	36	5,138	203	269,808	239	274,947

Note 1: Data is based on materials prepared by the Ministry of Justice.

Note 2: The unit is thousands of yen (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 on the date of the order.

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

The Act on Prevention of Transfer of Criminal Proceeds stipulates the penalties to ensure the effectiveness of supervisory mechanisms put in place by the competent administrative authorities over specified business operators (excluding lawyers) and the penalties on the illicit transfer of savings passbooks, and the police are enhancing efforts to crack down on such practices. Many money laundering crimes involve the illicit use of savings passbooks in the name of another party. The number of cases cleared as the illicit transfer of savings passbooks in 2019 was 2,577, an increase of 2 cases on the previous year (see Table 4-7).

Table 4-7 Number of Punishments Made under the Act on Prevention of Transfer of Criminal Proceeds

Category \ Year	2015	2016	2017	2018	2019
Transfer, etc. of savings passbooks	1,559	1,902	2,523	2,519	2,479
Transfer, etc. of savings passbooks (as business)	25	29	27	27	44
Soliciting the transfer of passbooks, etc.	16	42	31	27	27
Transfer of foreign exchange cards, etc.	19	2	0	0	27
Transfer, etc. of information for virtual assets exchange	0	0	0	2	0
Others	0	4	0	0	0
Total	1,619	1,979	2,581	2,575	2,577

Note: The provisions for penalties related to the "transfer, etc. of information for virtual assets exchange" came into effect in April 2017.

# Chapter 5

## Efforts of the Administrative Authorities and Specified Business Operators to Promote Anti-Money Laundering and Countering the Financing of Terrorism Measures

In order to effectively implement anti-money laundering and countering the financing of terrorism measures, it is critical that every obligation imposed on specified business operators is properly enforced. For this purpose, every year the National Public Safety Commission prepares and publishes the National Risk Assessment Report that describes the risk of ML/TF for transactions performed by business operators for each type of transaction, in accordance with the Act on Prevention of Transfer of Criminal Proceeds. JAFIC is also working together with the relevant competent ministries to provide various outreach programs to support their own efforts by organizing AML/CFT workshops and posting the latest information on the website. It is also making robust efforts at the private sector level as well.

Importantly, JAFIC will, 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 operator (except for lawyers) concerned.

### Section 1 Collaborations with the Specified Business Operators

#### 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 (national risk assessment).

In light of the current 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 that G8 members assess the risks surrounding their AML/CFT measures and implement proportionate measures to counter such risks.

Japan formulated its national action plan in the same month to establish an inter-ministerial

working team consisting of the Financial Services Agency and other relevant ministries and agencies under the chair of the National Police Agency and to conduct the national risk assessment. Based on this national action plan, the 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 2019, the Commission published the report for 2019.

## 2. Purpose

The National Risk Assessment (NRA) identifies and evaluates the risks that transactions carried out by business operators may be used for ML/TF. It provides the foundation for the effective and efficient implementation of risk-based AML/CFT measures by business operators.

## 3. Overview of National Risk Assessment Report

The National Risk Assessment Report published in December 2019 describes the risk of misuse of each product and service handled by specified business operators for ML/TF and evaluates risks in a comprehensive and multi-faceted manner based on the analysis of the risks that transactions may be misused for ML/TF, statistics about STR, examples of misuse cases, and risk mitigation measures taken by specified business operators regarding the cause of risks from the viewpoint of form of transactions, country and region, and type of customers. In addition, the National Risk Assessment Report is required to include recent trends related to ML/TF based on the current situation, etc., including on the following.

- Arrests initiated by STRs to gain a better understanding and efforts of business operators
- Risks relating to cross-border ML/TF, including foreign remittances and underground banks, in response to the substantial increase of foreigners in Japan
- Crimes related to virtual currencies or services to transfer funds, the amount of which is increasing
- Asset freezing and other measures taken against 5 terrorist groups in Asia, etc., before the 2020 Tokyo Olympic and Paralympic Games

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

## Paragraph 2 Measures for Specified Business Operators, etc.

### 1. Establishment of Guidelines, etc.

#### (1) Guidelines

- In April 2019, the Financial Services Agency (FSA) amended the Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism to specify the purpose of the Guidelines, including the obligation to perform risk assessment for all customers. In Oc-



tober 2019, the FSA published a document titled the Current Situation and Challenges Regarding AML/CFT Measures (September 2019), which summarizes the measures taken by the FSA and the efforts of the supervised financial institutions as of September of the same year.

- In September 2018, the Ministry of Finance reorganized the existing Foreign Exchange Inspection Manual, which was established based on the rules and checklists, and established the Foreign Exchange Inspection Guidelines to require financial institutions and currency exchange operators, etc., to identify the risks they face relating to ML/TF and take appropriate measures to reduce these risks. In September 2019, the Ministry of Finance partially amended said Guidelines to encourage the development of an effective system for taking AML/CTF measures, such as improving the monitoring system for detecting high-risk foreign exchange transactions and verifying funds at the time of such transactions. [Ministry of Finance: new]
- In August 2019, the Ministry of Economy, Trade and Industry (METI) amended the Examination Standards for Disposition by the Minister of Economy, Trade and Industry under the Installment Sales Act, etc., and the Basic Policy on Supervising under the Installment Sales Act (post pay), and it established the Guidelines for Anti-Money Laundering and Combatting Terrorist Financing in the Credit Card Business to add provisions concerning AML/CTF measures. In the same month, the Ministry of Agriculture, Forestry and Fisheries (MAFF) and METI amended the Basic Policy on Supervising by the Futures Commission Merchant Brokers and published the Guidelines for Anti-Money Laundering and Combatting Terrorist Financing in Commodity Futures Business to encourage futures commission merchant brokers to develop an effective system for taking AML/CTF measures, etc. In addition, in August and September, METI and MAFF requested that futures commission merchant brokers report on the measures they had taken, as required by the Guidelines, through the Commodity Futures Association of Japan (CFAJ). [METI: new]

## **(2) Reference cases of suspicious transactions**

The 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. In April 2019, to respond to the changes in transaction methods of financial institutions, the Financial Services Agency [FSA] amended the reference cases by adding cases of virtual currency transactions handled by virtual currency exchange service providers and cases related to technologies or cyber security, as necessary.

## **2. Seminars, etc.**

### **(1) For financial institutions, etc.**

- In April 2019, together with CFAJ, MAFF and METI held an information session to inform futures commission merchant brokers on the details of the Basic Policy on Supervising by the Futures Commission Merchant Brokers amended by MAFF and METI, on the Guidelines for Anti-Money Laundering and Combatting Terrorist Financing in the Futures

Commission Merchant Brokerage Business developed by MAFF and METI, and on the Procedures and Policies in Compliance with the Guidelines for Anti-Money Laundering and Terrorist Financing Measures in the Commodity Futures Business-General Rules of AML/CTF Measures- developed by CFAJ.

- In May 2019, officials of the National Police Agency (NPA) joined a seminar for futures commission merchant brokers (a regular meeting consisting of management directors of each futures commission merchant broker) in Tokyo and explained the outline of the Act on Prevention of Transfer of Criminal Proceeds, etc.
- In May 2019, MAFF held a video conference with prefectural government employees to explain the need for efforts to improve AML/CTF measures. In June of the same year, NPA joined a training seminar on the supervision of agricultural cooperatives that was held for prefectural government employees to explain the current situation and challenges surrounding AML/CFT measures.
- From October to November 2019, the FSA and NPA jointly held 14 seminars on STR for banks and financial institutions and explained best practices and matters to pay attention to regarding STR reporting.
- In collaboration with business lobby groups and finance bureaus, etc., the FSA holds lectures and seminars for financial institutions, etc., to continuously improve AML/CFT measures. During 2019, it held 85 lectures and seminars for the development of systems of financial institutions in Japan.
- In 2019, the Ministry of Finance (MOF) dispatched its officials to 6 seminars for money changers, which were held by the Japan Ticket Association, the Japan Association of Travel Agents, the Japan Department Stores Association, and the Japan Exchangers Safety Council. The dispatched officials explained the obligations under the Act on Prevention of Transfer of Criminal Proceeds in the context of a money exchange business.

### **(2) For building lots and buildings transactions business operators**

Each regional development bureau and each prefectural government carries out an "on-site inspection of building lots and buildings transactions business" every year to inspect the status of the preparation of verification records and transaction records under the Act on Prevention of Transfer of Criminal Proceeds.

In September 2019, the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) explained about measures for transactions at high risk of AML/CFT at a seminar for building lots and building transaction business held by the Osaka prefectural government and at a seminar held by the Aichi Takken Association.

### **(3) For jewelry and precious metal dealers**

In November 2019, METI officials joined MOF officials to explain compliance matters under the Act on Prevention of Transfer of Criminal Proceeds at a seminar held by the Japan Gold Metal Association for its member companies.

In January 2019, METI and the Japan Jewelry 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.

**(4) For PO box service companies [new]**

In March 2019, METI organized information on the actual situation and issues, as well as the risk of the illegal use of a PO box service, and it also developed the Guidance document for PO box service providers, which includes the efforts made to prevent illegal use. In addition, METI held a seminar for service providers to explain the details of the Guidance and published an explanatory movie on METI's website.

**(5) For telephone receiving/telephone forwarding service companies [new; previously included in the section for other measures]**

In March 2019, the Ministry of Internal Affairs and Communications (MIC) held an information session on the Act on Prevention of Transfer of Criminal Proceeds for telephone receiving/forwarding service companies in Tokyo, Osaka and Fukuoka.

In September 2019, MIC sent a document describing the outline of the Act on Prevention of Transfer of Criminal Proceeds and CDD matters to telephone receiving/forwarding service companies to improve their understanding of the information that they need to identify and of the need to keep records as specified business operators.

**(6) For judicial scriveners**

The NPA dispatched its officials to two seminars for judicial scriveners held at different venues by the Japan Federation of Shiho-Shoshi Lawyers in February and November 2019 to explain the outline of the Act on Prevention of Transfer of Criminal Proceeds, etc.

**(7) For certified public tax accountants [new]**

The NPA dispatched its officials to explain the outline of the Act on Prevention of Transfer of Criminal Proceeds for the preparation of the training materials of the Japan Federation of Certified Public Tax Accountants' Associations (JFCPTA). The content of the explanation has also been recorded in DVDs, etc., which became available to the members of JFCPTA in February 2019.

### **3. Visits to Specified Business Operators**

In 2019, the NPA visited 44 banks and financial institutions across the country to explain matters they need to pay attention to for STR reporting.

### **4. Other Measures**

\*Provision of an information session is added and included in the section for seminars.

**(1) Call for Actions by Specified Business Operators on the Adoption of United Nations Security Council Resolutions**

When the United Nations Security Council adopts a resolution requiring countries to freeze the funds or other assets of any persons or entities in order to prevent and suppress terrorism and terrorist financing, the National Police Agency, in cooperation with the relevant Ministries and Agencies, shall disseminate the content to specified business operators and request that they thoroughly conduct CDD on persons or entities subject to the resolutions concerned. Also, the targeted persons or entities are listed on the website of JAFIC.

## (2) PR through the NPA website

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

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

## Section 2 Efforts of Specified Business Operators \*Delete the ministry in charge upon completion.

### 1. Banking Industry

The Japanese Bankers Association (hereinafter, the "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 on CDD and STR filing, preparing and distributing seminar handbooks to members, and holding seminars for its members. Furthermore, the JBA prepares leaflets, posters or the like and carries out PR activities using broadcast media, newspapers or other mass media to inform customers of CDD measures for bank transactions. In addition, the JBA promotes organizational measures on issues related to ML/TF inside and 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 and other organizations, responding 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 its Code of Conduct, which provides for matters on compliance with laws or regulations, including the prevention of ML/TF and confrontations with anti-social forces, and it has prompted its members to put provisions into practice.

In 2018, the Public-Private AML Committee was established to ensure stronger cooperation between the two sectors. Moreover, the JBA established the AML/CFT Support Office to provide further support for its member banks for their AML/CFT efforts.

In April 2019, the savings account regulations and reference cases were established to develop regulations that enable the implementation of appropriate risk control measures, including partial restriction of transactions, in accordance with the Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism of FSA.

### 2. Shinkin Banks (Credit Unions)

The National Association of Shinkin Banks established the Shinkin Banks Action Ethics Program (NASB), 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." It represents its efforts to observe the laws and regulations related to the prevention of ML/TF and to eliminate transactions made by Boryokudan and other an-

ti-social forces.

On the issue of countermeasures against ML/TF, in March 2017, NASB established the AML/CFT Management System Study Group to continuously provide its members with reference information obtained from case studies. In March 2018, NASB also published a guidebook titled AML Handbook for Blocking ML at the Tellers of Shinkin Banks Tellers in order to provide tellers with the correct knowledge on the Act, and it distributes the guidebook at seminars as a study material on how to conduct CDD and report suspicious transactions.

In August 2019, NASB held information sessions for member companies, one for officers and another for staff members in charge, to improve AML/CFT measures before the fourth FATF mutual evaluation of Japan.

### **3. Labor Bank Industry**

The Federation of Labor Bank amends the Basic Regulations for Deposit and Other Bank Operations” or “Manual of CDD Procedures, etc., which are the standards used in the industry so that each labor bank can prevent ML/TF appropriately.

In July 2018, members of the Board of Directors of the National Association of Labour Banks (NALB) agreed on the policies on AML/CFT measures, etc., and each labor bank is developing measures by establishing a “plan for AML/CFT measures” according to the agreed policies, etc.

NALB is of the opinion that transactions with foreign customers or non-member customers, or non-face-to-face transactions, are at a relatively high risk of money laundering, because in such transactions the transfer of accounts for misuse may occur. NALB is implementing measures to reduce this risk by distributing flyers announcing that the transfer of accounts is illegal.

In addition, information on the amendment of the FATF Recommendations, FSA’s Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism and the Ministry of Finance’s Foreign Exchange Inspection Guidelines, etc., is shared in the industry as appropriate.

### **4. Credit Cooperatives**

To ensure AML/CFT measures are conducted by all credit cooperatives, the National Central Society of Credit Cooperatives (NCSCC) informs its members of the amended list of parties subject to asset freezing (including those relating to the Taliban), amended reference cases of suspicious transactions and amendments to the Manual of Procedures for Entry in STRs, etc., as appropriate. In addition, NCSCC holds information sessions on support for the development of systems and also provides results of analyses and examples of STRs submitted in the industry, as well as examples of regulations for the prevention of ML/TF. NCSCC is continuously striving to improve the measures to prevent ML/TF in the credit cooperatives industry by establishing a new customer management system in the center for the joint use of the system and by developing a customer risk evaluating tool based on the existing database in July 2019.

## 5. Agricultural Cooperatives and Fishery Cooperatives

For 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, and they conduct 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 create and issue posters intended to raise members' and users' awareness about 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 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 for in the Ordinance for Implementation of the Act on Prevention of Transfer of Criminal Proceeds, and by refining the CDD and STR Reporting Procedures (unified version), which are used by both agricultural cooperatives and fishery cooperatives for appropriate CDD and STR reporting.

## 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 into its Code of Conduct. LIAJ supports its members' AML/CFT efforts by means such as distributing posters on 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 on which AML/CFT personnel can share information and opinions with each other.

At the meetings of the Project Team held in 2019, the members worked together toward enhancing AML/CFT measures for the entire life insurance industry through efforts including sharing best practices on ML/TF risks in foreign countries, etc., and inviting an external lecturer to hold seminars on utilizing the results of ML/TF risk assessments.

## 7. Non-Life Insurance Industry

The General Insurance Association of Japan (GIAJ) has actively worked to ensure adequate CDD procedures across the industry through such efforts as developing guidelines for CDD procedures for savings-type insurance contracts and large cash transactions with high ML/TF risks, creating posters, and issuing letters to independent agents, which are the main sales channels of non-life insurance companies.

The GIAJ has revised the Administrative Reference Materials for its members in order to ensure standardized and comprehensive CDD procedures and recordkeeping in the industry. 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 on which its members can continuously share information and opinions on ML/TF and the fourth FATF mutual evaluation of Japan.

## 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, including by issuing the STR Guidelines for the JSDA Members.

At the practical level, relevant organizations such as securities companies, JSDA, stock exchanges, financial bureaus, the prefectural police, the Prefectural Center for Elimination of Boryokudan and the Bar Association established the Securities Police Liaison Council in each prefecture, and they have improved the effectiveness of the elimination of anti-social forces from the industry and the prevention of ML/TF through information exchanges at the field level or in seminars.

Additionally, JSDA established the Securities Safety Measures Support Center in 2009. It was registered as an organization to manage information on unjust demands, based on the Act on Prevention of Unjust Acts by Organized Crime Group Members, by the National Public Safety Commission and the National Police Agency. The Center checks customers' involvement with antisocial groups upon a member's request, using its verification system connected to the National Police Agency's database.

In terms of systems and regulations, JSDA has established and revised the Rules Regarding the Severance of Relationships with Antisocial Forces, the FAQs Concerning the Act on Prevention of Transfer of Criminal Proceeds and Related Cabinet Orders and Ministerial Ordinances (revised in April 2019), the STR Guidelines for JSDA Members (revised in April 2019) and the Procedures of CDD Completed Online (established in February 2019). Through such efforts, JSDA continues to ensure that its members are familiar with the rules and procedures that have been revised following the amendments to the laws.

Following the partial amendment of the Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism by the FSA in April 2019, in June 2019 the JSDA revised the document titled Practical Procedures and Notes Regarding the FSA Guidelines for Financial Instruments Business Operators: Approaches to AML/CFT Measures, which describes case studies and matters that require special attention regarding the day-to-day operations of a financial instrument business (especially a securities-related business) by JSDA members.

JSDA also contributed to the AML/CFT measures in the industry by preparing and distributing posters (which can be used as leaflets) for offices in June 2019 so that the customers of its members will recognize the importance of the AML/CFT measures and cooperate in CDD.

## 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 that its members incorporate AML/CFT provisions in their internal rules to serve as the pillars of the AML/CFT structures of JFSA members. The JFSA also provides the guidelines for developing internal rules, as well as model internal rules to exemplify the matters that should be included in 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 pro-



vided instructions for improvements, as necessary.

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

The JFSA conducts both document-based and onsite-based inspections. It audits member companies' compliance by assessing how well internal systems are established based on the Guidelines for Internal Rules Development on preventive measures against the damages caused by money laundering, terrorist financing, and anti-social forces.

Following the full enforcement of the amended 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 2016. In response to the establishment of the FSA Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism and the subsequent amendment of the FSA's supervising policies, the JFSA worked to revise 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 damage by antisocial groups in the moneylending industry in 2019, through such efforts as revising the Guidelines for Internal Rules Development or holding AML/CFT seminars based on the partial amendment of the Ordinance for Enforcement of Act on Prevention of Transfer of Criminal Proceeds or the revision of the reference cases of suspicious transactions prepared by FSA.

## 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 providing 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. It also actively works to ensure its members understand the revised rules.

Other efforts by the JPSA include holding 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 publishing the FSA list of persons subject to asset freezing and information on finance-related measures against North Korea, etc., on its member website.

In 2019, the JFSA actively worked to help its members enhance their AML/CFT measures in response to the partial amendment of the Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds, including the establishment of a CDD method completed online, the partial amendment of the Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism by the Financial Services Agency, the partial amendment of the Foreign Exchange Inspection Guidelines by the Ministry of Finance and the implementation of the fourth round of the FATF Mutual Evaluation of Japan. Specifically, the JFSA developed and distributed to its members a revised document explaining the FAQs regarding the Act on Prevention of Transfer of Criminal Proceeds and the Foreign Exchange and Foreign Trade Act. Moreover, the JFSA continued to support the development of a risk management sys-

tem for AML/CTF measures by holding meetings of the Fund Transfer Business Council, which consists of fund transfer companies, from time to time or seminars and information sharing sessions with specialists and FSA personnel on 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 continued to promote various efforts with the utmost priority toward enhancing the AML/CFT system in the industry. Specifically, the JVCEA has carried out reviews and consultations based on its self-regulation rules through the monitoring of the CDD system and the STR reporting of members. In addition, it also holds regular meetings for sharing information from the relevant authorities with members. The JVCEA members are also examining the measures to comply with the FATF's guidance for virtual asset service companies, which was revised in June 2019 in collaboration with foreign companies.

### **12. Commodity Futures Industry**

The Commodity Futures Association of Japan (CFAJ) has requested its members conduct self-inspections based on a resolution of the Board of Directors regarding the "efforts for the exclusion of antisocial forces," and it has prepared and provided policies on the exclusion of antisocial forces and provisions for the exclusion of Boryokudan in the terms and conditions, and a sample agreement to represent that a company is not an antisocial force for its members.

The futures commission merchant brokers' management committee, which consists of the management directors of each futures commission merchant broker, is a regularly scheduled committee, and it held a seminar in May 2019 to inform its members of the outline of the Act on Prevention of Transfer of Criminal Proceeds and AML/CTF measures, etc.

In addition, CFAJ encourages the development of a system for AML/CTF measures by cooperating with the MAFF and METI and requesting that its members submit reports on the implementation of measures required in the Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism in the Commodity Futures Industry developed by MAFF and METI.

### 13. Foreign Exchange Industry

In the foreign exchange industry, seminars are held regularly for the members of curio dealer, travel, hotel and department store associations who provide foreign exchange services to inform them of their obligations under the Act on Prevention of Transfer of Criminal Proceeds. A manual for foreign exchange services has also been prepared to improve the AML/CFT measures.

In particular, foreign exchange service providers handling a high volume of transactions are striving to improve the system for detecting suspicious transactions by lowering the threshold for CDD and utilizing a check sheet to examine whether or not a transaction falls under a suspicious transaction at the time of transaction.

### 14. Leasing Industry

The Japan Leasing Association (JLA) issues and distributes educational pamphlets on the Act on Prevention of Transfer of Criminal Proceeds for leasing customers. Educational pamphlets and other related documents are also uploaded onto the JLA's website to raise awareness of the Act on Prevention of Transfer of Criminal Proceeds.

JLA continues to hold an annual training program (advanced course), which in 2019 included a training session on the Act on Prevention of the Transfer of Criminal Proceeds for leasing company managers and other relevant people, and it established the Guidelines for Anti-Money Laundering and Combatting the Financing of Terrorism in the Finance Leasing Industry in September of the same year to raise awareness in the industry.

### 15. Credit Industry

The Japan Consumer Credit Association (JCA) has included items on CDD and on STR reporting, based on the Act on Prevention of Transfer of Criminal Proceeds, and it has created a manual on the preparation of the documents to be prepared by the specified business operators set forth in the Ordinance for Enforcement of the Act and requires that its member companies implement the measures under the Act. In 2016, the JCA held a briefing session on the Act on Prevention of Transfer of Criminal Proceeds, while it also holds seminars, etc., to inform its member companies about amendments to the Act.

In addition, JCA held seminars on ML/CTF measures at 10 different venues in Japan from August to September 2019 to inform its member companies of the details of the Guidelines for Anti-Money Laundering and Combatting the Financing of Terrorism in the Credit Industry developed by MITI, the manual on the preparation of the risk assessment reports to be prepared during the identification and assessment of risks under the Guidance and the documents to be prepared by the specified business operators under the Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds.

### 16. 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 this industry as a whole can promote collective efforts to prevent the

transfer of criminal proceeds and to eliminate anti-social forces. It is proceeding with measures to share information on the Act on Prevention of Transfer of Criminal Proceeds, including efforts such as letting the whole industry reach an agreement on the development of a system controlling the implementation of CDD measures, etc., appointing a responsible officer for the operation of the system within the relevant business operators, and also preparing and distributing a handbook, etc., toward raising awareness.

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 FAQs section on the outline and implementation of the amended Act. The Council invited lawyers and other experts as lecturers and held briefing sessions for members to help them understand the details of the amended Act.

And in 2018, it revised the handbook in response to the partial amendment of the Act on Prevention of Transfer of Criminal Proceeds to improve the AML/CTF measures taken by its members.

In 2019, the Council gave a briefing on the fourth FATF mutual evaluation of Japan and AML/CTF measures, etc., at the planning committee of the Fudosan Ryutsu Keiei Kyokai and held a seminar jointly with the Real Estate Companies Association of Japan. The Housing Industry Association of Japan Council invited a lecturer from a law firm to hold a seminar on eliminating relationships with antisocial forces.

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

In February 2019, the Japan Jewelry Association (JJA) prepared and distributed a manual explaining the outline of the Act on Prevention of Transfer of Criminal Proceeds and the obligations of business operators provided for under the law, in order to raise awareness of the legal system among consumers and business operators in the industry. The JJA also continues to inform the relevant people in the industry, etc., about the Act and to draw attention to it through a special webpage for the Act on its website.

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

This year, the Japan Gold Metal Association (JGMA) has continued to hold regular seminars to work on raising its members' awareness on the Act on Prevention of Transfer of Criminal Proceeds. The JGMA requires its members to strictly check import documents when purchasing gold bullion brought into Japan from overseas, which it posts on the JGMA website to make sure that they are widely known to the relevant parties in the industry. The JGMA has also distributed posters, etc., to raise awareness for the legal system among consumers and businesses in the industry with the support from METI.

### **18. Secondhand Goods Dealers**

In 2019, the Japan Reuse Affairs Association and the Tokyo Federation of Secondhand Goods Dealers for Crime Prevention continued to work on raising their members' awareness on AML/CFT measures, such as distributing their Handbook to its members, etc., which ex-

plains the obligations under the Act on Prevention of Transfer of Criminal Proceeds that dealers must comply with when trading precious metals.

### 19. 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 to the industry of the AML/CFT aspects. As part of such efforts, the JFBA developed the CDD and Record-keeping Rules and Regulations. These Rules and Regulations require that lawyers conduct CDD and preserve records for certain legal services, and that they 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 Rules 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 following a resolution of the special assembly and a resolution of the JFBA board respectively, in order to add 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 a provision that grants the JFBA the authority to require that its members 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 among its members, etc., about the efforts it is making for measures to handle money laundering, as well as the overview of the international AML/CTF measures, etc.

As reference materials on the Rules and Regulations, the JFBA publishes instruction manuals, e-learning programs, pamphlets, CDD checklists, recordkeeping formats, and leaflets for clients on its website and members-only website.

The Risk-based Approach Guidance for Legal Professionals developed and published by FATF for lawyers (published in October 2008, hereafter, the "Guidance") and a translation of the Legal Professionals' Vulnerability to ML/TF (published in June 2013) are also posted on the website for the members. The details of the amended Guidance (amended in June 2019) are included in *Jiyū to Seigi* (October 2019 issue), an institutional magazine distributed to all JFBA members.

In addition, JFBA regularly revises the Money Laundering Risk Assessment Report on Legal Services in Japan published on the website for its members as a reference material to perform money laundering risk assessments.

The above reference material, etc., is available for the bar associations in Japan as training materials and is used at a seminar for newly registered lawyers and ethics workshop that are held by each bar association every year. JFBA dispatches lecturers for seminars by each bar association as necessary. In June 2019, JFBA organized a study group sponsored by JFBA, which is organized regularly by using the above reference material.

In Jiyū to Seigi, the JFBA has regularly included articles on the Rules and Regulations and AML/CFT measures in the context of legal services, etc., in order to raise awareness (in the January, March, April, May, August to December 2019 issues). In addition, the JFBA Newspaper, Committee News, and Fax News have also regularly included articles on AML/CFT measures (January, March, April and June 2019).

## **20. 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 judicial scrivener services. As part of such efforts, the JFSLA partially amended its CDD and Recordkeeping Standards for Judicial Scriveners, requiring that each shiho-shoshi lawyers' association revise its standards as necessary, and it established the CDD Rules and the Guidelines for Judicial Scrivener Services in Relation to the Prevention of Transfer of Criminal Proceeds. The JFSLA has also worked to ensure that its members become familiar with the rules on CDD procedures and recordkeeping in relation to the services they provide, as well as AML/CFT measures.

The JFSLA partially revised the JFSLA rules to require each shiho-shoshi lawyers' association to provide the JFSLA with the information on reports regarding CDD and record keeping measures for the specified services under the Act on Prevention of Transfer of Criminal Proceeds and measures taken for their clients, which are submitted to each shiho-shoshi lawyers' association by its members ("specific case reports") at the General Meeting of the JFSLA held in June 2019.

At the time of partial amendment of the above JFSLA rules, the JFSLA also prepared the Specified Case Report Manual and notified all its members so that they can refer to the manual when preparing a specific case report.

The JFSLA also prepared a training DVD on the trends in AML/CTF measures and judicial scrivener services, etc., in March 2019, and a training DVD related to specified case reports in November 2019. The JFSLA distributed the DVDs to shiho-shoshi lawyers' associations and also in the training library for members to promote their understanding.

In addition, the JFSLA, the eight regional shiho-shoshi lawyer's associations, and other shiho-shoshi lawyer's associations hold training sessions on CDD procedures as a duty of judicial scriveners, as well as on CDD and recordkeeping obligations under the Act on Prevention of the Transfer of Criminal Proceeds.

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

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

To facilitate the 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 the Handbook on Customer Identity Verification under the Act on Prevention of Transfer of Criminal Proceeds, which it has 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 it has been continuously providing related information on its website in order to raise awareness among all its members.

In 2019, the Association and prefectural associations of certified administrative procedures specialists continued to work to raise awareness about CDD and recordkeeping on such CDD and transactions, as well as on 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.

## 22. Japanese Institute of Certified Public Accountants

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

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

In April 2019, the JICPA distributed an online training course for its members, in which it provides an overview of the Act on Prevention of Transfer of Criminal Proceeds and AML/CFT.

## 23. Certified Public Tax Accountants' Association

The Japan Federation of Certified Public Tax Accountants' Associations ("JFCPTAA") informs all its members of the AML/CFT measures by providing information on compliance with the Act on Prevention of Transfer of Criminal Proceeds on the JFCPTAA website and by preparing and distributing leaflets showing a work flowchart of the relationship between the AML/CFT measures and tax services.

The JFCPTAA posted an article titled "AML/CFT measures necessary for certified public tax accountants" in the JFCPTAA newsletter in March 2018 and an article titled "The risks of money laundering surrounding certified public tax accountants" in June 2019. In November 2018, the JFCPTAA prepared a video as a training material in which officials of the National Tax Agency and the National Police Agency lecture on AML/CTF measures, and it distributed it on the JFCPTAA website in February 2019.



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

When suspicion arises during the investigation of cases, including special fraud cases by the Prefectural Police, with regard to the possibility that a specified business operator (excluding lawyers; the same applies in this section) has violated the obligation of CDD and other matters prescribed in the Act on Prevention of Transfer of Criminal Proceeds, the National Public Safety Commission and the National Police Agency shall order the alleged specified business operators to submit a report and shall prepare an opinion statement for the competent administrative authorities.

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

In 2019, the National Public Safety Commission and the National Police Agency ordered 7 telephone forwarding service providers to submit reports.

As a result, the following misconducts were found.

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

In addition, based on the submitted reports, the National Public Safety Commission and the National Police Agency sent 8 opinion statements to the Minister of Internal Affairs and Communications on supervising telephone forwarding service providers to request them to take rectification measures for 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 5-1 Number of Supervisory Actions

Category \ Year	2015	2016	2017	2018	2019
Number of order for submission of reports	11	9	7	13	7
Postal receiving service providers	9	9	6	0	0
Telephone receiving service providers	0	0	0	0	0
Telephone forwarding service providers	0	0	1	12	7
Postal receiving/telephone forwarding service providers	2	0	0	1	0
Number of directions to conduct inquiry to prefectural police	2	0	0	0	0
Postal receiving service providers	2	0	0	0	0
Telephone forwarding service providers	0	0	0	0	0
Postal receiving/telephone forwarding service providers	0	0	0	0	0
Number of opinion statements submitted to competent administrative authorities	10	8	7	11	8
Postal receiving service providers	8	8	7	2	0
Telephone receiving service providers	0	0	0	0	0
Telephone forwarding service providers	2	0	0	9	8

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

In 2019, a rectification order was issued for the first time by the Minister of Internal Affairs and Communications against a telephone forwarding service provider based on the opinion statements issued by the National Public Safety Commission and the National Police Agency thus far.

The National Public Safety Commission and the National Police Agency have collected reports from 27 telephone forwarding service providers from 2013, at which time telephone forwarding service providers were added to the specified business operators, until the end of

2019, and submitted opinions statements to the Minister of Internal Affairs and Communications regarding 21 telephone forwarding service providers. Nine of the telephone forwarding service providers from which reports were collected were notified by the Minister of Internal Affairs and Communications of the abolition of their business operations or dissolution by the end of 2019.

**Table 5-2 Number of Rectification Orders by Competent Administrative Authorities**

Category \ Year	Year				
	2015	2016	2017	2018	2019
Number of rectification orders based on Opinion Statements	5	0	1	1	1
Postal receiving service providers	5	0	1	1	0
Telephone forwarding service providers	0	0	0	0	1

# Chapter 6

## Promotion of International Cooperation

Today, as the globalization of economic and financial services are spreading remarkably, it has become possible 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 the investigations of authorities by hiding criminal proceeds or terrorist funds through, among other methods, cross-border wire transactions. To make matters worse, jurisdictions with non or insufficient compliance with the global AML/CFT regime provide a loophole and a significant opportunity for those 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 global scale ML/TF. In particular, in order to detect any illicit funds and prevent the misuse of the global financial system, the competent government authorities in all jurisdictions that are playing any role in AML/CFT have to share the latest trends in ML/TF or information on anything undermining our efforts in a timely manner and take effective measures against ML/TF all together.

### Section 1 Activities of International Institutions

#### Paragraph 1 FATF

##### 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. Since the terrorist attacks in the United States in 2001, FATF has also taken the initiative in promoting international CFT measures.

FATF had 37 member jurisdictions (including Japan) and 2 international institutions as of the end of December 2019.

##### 2. Activities

###### (1) Main Activities

1. Formulating and reviewing 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. Promoting compliance with the FATF Recommendations in non-member jurisdictions

4. Studying the trends and modus operandi of ML/TF.

## **(2) FATF Recommendations**

### **1. 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 the increasing sophistication and complexity of ML.

The 40 Recommendations contain the following additional elements.

- A clear definition and expansion of scope of ML offences
- Undertaking CDD, including customer identification
- Measures to prevent the 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

### **2. FATF 9 Special Recommendations**

In October 2001, a month after the terrorist attacks in the United States, 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” in 2004, they are now called the 9 Special Recommendations on Terrorist Financing.

The main points of the 9 Special Recommendations are as follows:

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

### **3. The new 40 Recommendations**

In 2012, FATF integrated the 40 Recommendations and the 9 Special Recommendations into its new 40 Recommendations in preparation for its fourth Mutual Evaluation. The major points it newly included in the new 40 Recommendations can be summarized as follows.

- Enhancing a risk-based approach
- Increasing the transparency of legal persons, entrustment, and wire transfer systems
- Enhancing the capabilities of the relevant administrative authorities and strengthening the 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 viewpoints, such as laws, regulations, and the control regime for AML, and the investigations of ML crimes.

Summarily, the mutual evaluation process refers to the following:

1. A desk-based review of a country's level of technical compliance and contextual factors, and its ML/TF risks
2. On-site visits to clarify issues relating to a country's implementation of an AML/CFT system
3. Discussions at the FATF Plenary Meeting

The scope of the evaluations involves two inter-related components for technical compliance (TC) and effectiveness. The TC component is to assess whether the necessary laws, regulations, or other required measures are in force and effect. The effectiveness component, which was introduced in the fourth-round evaluation for the first time, is to assess whether the AML/CFT systems are working. 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 their improvements regarding deficiencies. The assessed countries will also have a follow-up assessment five years after the finalization of the evaluation, where re-ratings on TC and effectiveness will be possible as part of the follow-up process. The assessed countries can be placed on either the regular follow-up track, which requires them to provide a report three years after the MER adoption, or the enhanced follow-up track, 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 the 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 four times (in 1994, 1998, 2008, and 2019). For the fourth round of the Mutual Evaluation of Japan, the assessor team conducted an on-site visit 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, Ja-

【FATF Plenary Meeting (Paris)】



pan has been a very active contributor to its work since its establishment in 1989. Japan has participated in the tri-annual Plenary Meetings and working groups, which conduct analysis of ML typologies, etc., and it was the plenary chair between July 1998 and June 1999. JAFIC and other government ministries and agencies have also actively joined the discussions toward the development of a new AML/CFT framework, sending their officials to the plenary and working group meetings every year.

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

As of the end of December 2019, the APG consisted 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 analyses on ML trends in the Asia/Pacific region

**【APG Annual Meeting (Canberra)】**



### 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 annual meeting and the second typology meeting were both held in Tokyo in March 1998 and March 1999, respectively. Japan was the co-chair with Australia between July 2004 and June 2006.

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

## Paragraph 3 Egmont Group

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### 1. Organization

The Egmont Group is an international forum established mainly by the FIUs of several Euro-

pean nations and the United States in April 1995 with the goal of promoting cooperation on information exchange, training, and the sharing of 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 first established as an informal forum, today it has become an internationally recognized official body 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 need for close international cooperation between FIUs due to the 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 the annual plenary held in South Africa in July 2013.

The Egmont Group consisted of the FIUs of 164 jurisdictions as of the end of December 2019.

## 2. Activities

In addition to the annual plenary meeting, which is attended by representatives from all member FIUs, the Egmont Group has the following working groups, which are held twice a year.

1. Working Group on information exchange
2. Working Group on membership, support and compliance
3. Working Group on policy and procedures
4. Working Group on technical assistance and training

## 3. Participation

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

Since then, JAFIO has actively participated in the activities of the Egmont Group. It has sent staff members to working group meetings and the plenary meetings and has taken 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 as "sponsor FIU") of the Myanmar FIU, which is currently not yet an Egmont Group member.

After JAFIC started to take the responsibility as the Japan FIU from JAFIO in April 2007, JAFIC applied to the Egmont Group and was granted the Egmont Group membership at the 15th plenary held in Bermuda in May 2007.

After joining the Egmont Group, JAFIC has sent its members to both the annual meetings and the working group meetings to participate in the discussions on the principles related to information exchanges between FIUs and other matters. JAFIC accepted the role of sponsor



FIU for the Pakistan FIU (in co-sponsorship with the U.S. FIU) at the request of the Egmont Group in 2011. In 2012, JAFIC conducted an onsite survey to assess the Pakistan FIU's membership qualification.

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

[Egmont Group Annual Meeting (The Hague)]



## Paragraph 4 Participation in the Activities of International Organizations

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

Table 6-1 Participation in the Activities of International Organizations in 2019

	Month	Name of meeting	Location
FATF	February	Plenary Meeting	Paris (France)
	June		Orlando (U.S.)
	October		Paris (France)
APG	August	Annual Meeting	Canberra (Australia)
Egmont Group	January	Working Group	Jakarta (Indonesia)
	July	Annual Meeting	Hague (Netherlands)

## Section 2 Progress of the International Cooperation

### 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 the assets of persons or entities associated with the Taliban, etc. according to the UNSCRs concerned. Each time the list of such parties is revised, the National Police Agency requires that specified business operators (excluding lawyers, shiho-shoshi lawyers, certified administrative procedures specialists, certified public accountants and tax accountants; the same applies in this paragraph) ensure CDD and the reporting of all suspicious transactions through the supervisory authorities. Such a requirement was made a total of 16 times in 2019.

## 2. Measures Based on the Public Statement Issued by FATF

The FATF plenary meetings held in February, June, and October 2019 adopted a statement that called on all FATF members and other jurisdictions to apply countermeasures to protect the international financial system from ML/TF risks emanating from the Islamic Republic of Iran and North Korea. In response, the National Police Agency has issued a notice through the supervisory authorities that specified business operators should properly perform CDD and the reporting of 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 conducting CDD procedures.

## Paragraph 2 Information Exchanges with Foreign FIUs

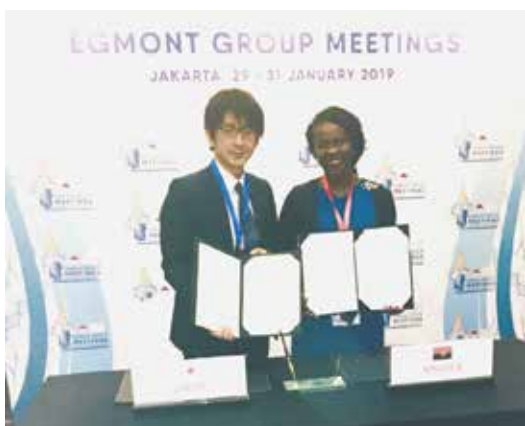
### 1. Establishment of the Framework for Exchange of Information

It is necessary to exchange information on suspicious transactions with foreign FIUs in a timely manner 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 the secretariat) may disseminate information on suspicious transactions to foreign FIUs on the condition that there is a framework governing the restrictions on the use of the disseminated information in the foreign countries.

In response, JAFIC has established the necessary framework by exchanging documents specifying the restrictions on the use of provided information and other matters with foreign FIUs. JAFIC has been handling the negotiations for establishing the frameworks for information exchange with numerous foreign FIUs in order to enable constructive exchanges of information with them.

【Establishment of Framework with Angola FIU】



【Establishment of Framework with Ukraine FIU】



From its establishment in April 2007 until the end of December 2019, JAFIC set the frameworks for information exchange with the FIUs of 107 jurisdictions (in 2019, frameworks for information exchange with Angola, Ukraine, and Tanzania. See Table 6-2).

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

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

\* Jurisdictions with which JAFIC has newly set the frameworks for information exchange in 2019

## 2. Situation of Information Exchanges

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

As JAFIC has allocated sufficient resources to STR analysis, it has actively arranged information exchanges with foreign FIUs. In 2019, with regards to unusual or unreasonable money transfers to and from foreign countries that had come to light from the results of the STR analyses, JAFIC made 201 requests to the relevant foreign FIUs for the provision of information, such on the flow of funds transferred out of Japan and the sources of remittance from abroad (see Table 6-3).

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

Category \ Year	2015	2016	2017	2018	2019
Number of requests for information from JAFIC to foreign FIUs	183	149	201	255	201
Number of requests for information from foreign FIUs to JAFIC	67	60	66	72	61
Total	250	209	267	327	262

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

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

Category \ Year	2015	2016	2017	2018	2019
Number of spontaneous information disclosures from JAFIC to foreign FIUs	30	46	48	101	111
Number of spontaneous information disclosures from foreign FIUs to JAFIC	50	37	69	68	85
Total	80	83	117	169	196

In 2019, there were 151 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	2015	2016	2017	2018	2019
Number of cases in which JAFIC disseminated information provided by foreign FIUs to domestic LEAs	109	106	139	103	151

### 3. Consultations

JAFIC holds consultations, etc. with foreign FIUs in order to actively exchange information in the future.

In 2019, the following consultations, etc. with foreign FIUs were held:

January: Indonesia FIU (Jakarta)

August: Thailand FIU (Tokyo)

August: Australia FIU (Canberra)

【Consultation with Thailand FIU】

