

National Risk Assessment- Follow-up Report(2021)

Digest Version

- The National Public Safety Commission annually prepares and publishes the National Risk Assessment-Follow-up Report (hereinafter referred to as an “NRA-FUR”), which describes risks of misuse for ML/TF in each category of the transactions carried out by specified business operators and other matters under the Act on Prevention of Transfer of Criminal Proceeds.
- While taking into consideration the contents of the NRA-FUR, specified business operators file STRs after having determined whether transactions are suspicious in regard to ML/TF, and also take measures for accurately performing verification at the time of transaction, and other matters.
- This document is a digest version of the NRA-FUR published in December 2021. For more details, refer to the full version of the NRA-FUR.

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1. Table of contents of the NRA-FUR

	Item	Main Description
	Introduction	History, Purpose, Overview of NRA-FUR History of NRA-FUR preparation and publication, Purpose of NRA-FUR, and Overview of assessment and analysis result
Sec. 1	Risk Assessment Method, etc.	FATF Guidance, National Risk Assessment of Japan Risk factor, Assessment process, Information used in the assessment
Sec. 2	Environment surrounding Japan	Geographic Environment An island country located in a region called Northeast Asia (or East Asia)
		Social Environment Population decline and Progress of aging
		Economic Environment The third largest economy in the world, One of the world's leading international financial centers
		Criminal Circumstances Increase in cybercrime, Continuation of terrorism threats
Sec. 3	Analysis of Money Laundering Cases, etc.	Offenders Boryokudan, Specialized Fraud Groups, and Crime groups of foreigners in Japan
		Modus Operandi Crime forms of predicate offences (Theft, Fraud, and Narcotics-related crimes, etc.) and modus operandi of money laundering
		Suspicious Transaction Report Number of Received STRs by Each Business Type, Number of STRs Used for Investigative Purposes, etc.
Sec. 4	Risk of Transaction Types, Country/Regions, and Customer Attributes	Transaction Types Non-Face-to-face Transactions, Cash Transactions, and International Transactions
		Countries/Regions Iran and North Korea
		Customer Attributes Anti-social Forces, International Terrorists, Non-resident Customers, Foreign Politically Exposed Persons, and Legal Persons
Sec. 5	Risk of Products and Services	Major Products and Services in which Risk is Recognized Products and Services Dealt with by specified business operators, etc. (Deposit-taking Institution, Funds Transfer Service Providers, and Crypto-assets Exchange Service Providers, etc.)
Sec. 6	Low-risk Transactions	Factors that Mitigate Risks Low-risk transactions Specific transactions that have factors (The source of funds is clear, The customer is a national or local government, etc.) to mitigate risks
	Going Forward	— Going forward of the competent authorities and specified business operators

2. Environment surrounding Japan

✓ The following is an overview of the environment surrounding Japan from the viewpoints of geographical environment, social environment, economic environment and criminal circumstances.

Assessment and Analysis Results

Geographic Environment

- Japan is an island country located in the eastern part of the Eurasian Continent, in a region called Northeast Asia (or East Asia). Traffic and logistics to and from other countries are conducted via the sea and airports. At seas and airports nationwide, immigration control and customs procedures are conducted from the viewpoints of preventing terrorism and smuggling committed by international criminal groups.

Social Environment

- Japan's total population as of October 1, 2020, was 126,227,000, a decrease of 1.4% compared with the statistics ten years ago (2010).
- The aging rate as of October 1, 2020 (the ratio of the population aged 65 and over to the total population) reached a record high of 28.8%, an increase of 5.8 points compared to the aging rate of 23.0% ten years ago. It is at the highest level compared to other developed countries.
- In the future, it is estimated that the aging of the population will progress further as the population aged 65 and over will increase while the total population will decrease.

Economic Environment

- Japan occupies a vital position in the world economy. The third-largest economy after the United States and China. Besides, Japan has a highly developed financial sector as a global financial center. A considerable amount of financial transactions is conducted as one of the world's leading international financial centers.
- Japan's economic environment, which has been globalized and highly developed, provides various ML/TF means and methods to domestic and foreign people who intend to do ML/TF.

Criminal Circumstances

- The total number of recognized criminal offense cases in 2020 continues to be a record low after the war as in the previous year. The number of elderly victims to the number of recognized criminal offenses has consistently increased since 2009.
- The number of cleared cases of cybercrime was the highest ever in 2020. The number of accesses considered to be search activities in cyberspace detected by the National Police Agency is also rising.
- As for international terrorist situation, Terrorist attacks have occurred one after another in various parts of the world. There have also been cases in which Japanese people and interests of Japan related facilities have been damaged overseas by terrorism. Therefore the threat of terrorism against Japan still exists.

3. Analysis of Money-Laundering Cases, etc. (Offenders)

- ✓ Although there are various types of perpetrators of money laundering, Boryokudan (Japanese organized-crime groups), specialized fraud groups, and crime groups of foreigners in Japan are considered to be the main offenders.

Offenders	Assessment and Analysis Results
Boryokudan	<ul style="list-style-type: none"> Boryokudan repeatedly and continuously commit crimes to gain economic profit, and skillfully engage in money laundering with the gained criminal proceeds. In Japan, money laundering by Boryokudan is an especially serious threat.
Specialized Fraud Group	<ul style="list-style-type: none"> In recent years, the number of recognized specialized fraud cases and the amount of loss suffered have remained high. Damage in 2020 was concentrated in metropolitan areas. Tokyo (2,896 cases) accounted for 21.4% of the total number of cases recognized, and seven prefectures, including Kanagawa (1,773 cases), Chiba (1,217 cases), Osaka (1,107 cases), Hyogo (1,027 cases), Saitama (1,026 cases), and Aichi (569 cases), accounted for 71.0% of the total number of cases recognized. Having the ringleader as the core, specialized fraud groups assign a role to each member. For example, one-member cheats victims, another withdraws money, and the other procures tools to commit the crime by skillfully abusing various means, including deposit and savings accounts, mobile phones, and call forwarding services. In this way, they commit organized fraud. In addition, they launder money, for example, by using bank accounts in the name of fictitious or third parties as a means to receive money from a victim. There are some people who make bank accounts in the name of fictitious or third parties by using falsified identifications and thoughtlessly sell their own bank account to obtain funds for amusement expenses or the cost of living. Such people make money laundering easier.
Crime groups of foreigners in Japan	<ul style="list-style-type: none"> Criminal proceeds from offenses in which foreigners are involved are difficult to trace because they are transferred across borders between countries with different legal and transaction systems. Such crimes are characterized by the fact that their human networks, mode of committing offenses, etc., are not limited to one country. This is evident in cases where crime groups consisting of foreigners, etc., in Japan commit crimes following instructions from criminal groups existing in their home countries, and these offenses tend to be more sophisticated and hidden since the tasks assigned are carried out by different offenders in different countries involved. Observations of the situation indicate that foreigners in Japan who are involved in organized crime commit money laundering as part of their criminal activities; there were money laundering cases associated with cases of illegal remittance pertaining to Internet banking systems committed by a group of Chinese, shop lifting by a group of Vietnamese, and international fraud by a group of Nigerians.

3. Analysis of Money-Laundering Cases, etc. (Modus Operandi): 1/4

- ✓ The size of generated criminal proceeds, relevance to money-laundering offenses, etc., types of misused transactions, danger of fomenting organized crime, and impact on sound economic activities, etc. differ depending on the type of predicate offense to money laundering.
- ✓ The following is an overview of the assessment and analysis results for main predicate offenses and Modus operandi of money laundering.

Predicate Offenses	Assessment and Analysis Results	
Theft	Forms of offenses	<ul style="list-style-type: none"> As for theft, there are also cases committed continuously and repeatedly by crime organizations, including Boryokudan and crime groups of foreigners in Japan, that result in large amounts of criminal proceeds. The total financial damages from theft during 2020 was about 50.2 billion yen (about 16.8 billion yen for the total amount of damage in cash), generating a large amount of criminal proceeds.
	Modus operandi of money laundering	<ul style="list-style-type: none"> Cases of buying and keeping stolen cars knowing that they were stolen. Cases where a large number of coins obtained via burglary were deposited into an account under the name of another party and an amount equivalent to the coins were withdrawn afterwards, resulting in factual exchange. Cases where a large quantity of stolen gold ingots was sold to a gold trader in the name of a legal person operated by a friend of the offender. Cases where a group of Chinese, etc. purchased goods on the Internet using credit cards obtained illegally, and received the goods by designating addresses of fictitious persons or addresses different from the actual place of residence.
Fraud	Forms of offenses	<ul style="list-style-type: none"> Fraud offenses, including specialized fraud offenses, have been repeatedly and continuously committed by domestic and foreign criminal groups. Large amounts of criminal proceeds were generated through the use of bank accounts under the name of fictitious persons or other parties and transactions by a corporation disguised to appear as legitimate. The total financial damages from fraud offenses in 2020 was about 64.0 billion yen.
	Modus operandi of money laundering	<ul style="list-style-type: none"> Accounts under the name of individuals sold to crime groups when foreigners leave Japan were misused as accounts for receiving money stolen through specialized fraud. Accounts under the name of fake companies established for receiving proceeds from specialized fraud were opened and misused.

3. Analysis of Money-Laundering Cases, etc. (Modus Operandi): 2/4

Predicate Offenses	Assessment and Analysis Results	
Computer fraud	Forms of offenses	<ul style="list-style-type: none"> Regarding online banking fraud, most offenders are believed to illegally transfer money from bank accounts of victims by leading them to phishing sites disguised as financial institutions via short message services (SMS) or emails to steal their IDs, passwords, etc. While Boryokudan involvement is observed in specialized fraud offenses, international criminal organizations have also been observed engaging in online banking fraud. The reality of the situation is that criminal organizations commit such offenses in an organized manner to obtain large amounts of criminal proceeds.
	Modus operandi of money laundering	<ul style="list-style-type: none"> The maximum amount of cash was withdrawn from ATMs using cash cards obtained via specialized fraud offenses, and the maximum amount for transfer was illegally remitted to accounts under the name of another person managed by the criminals from the accounts of the victims. A criminal organization in China illegally accessed the business system of a financial institution in Japan and transferred money to an account under the name of another person, and a Chinese criminal group in Japan withdrew cash from the account. Crypto-assets obtained by fraudulent acts on the server of a crypto-asset wallet service were transferred to the anonymous account of a decentralized crypto-asset exchange managed by the criminal.
Violation of the Investment Act/ Money Lending Business Act	Forms of offenses	<ul style="list-style-type: none"> This is loan-shark crime whereby a money lending business operates without a registration and lends money at a high interest rate. Cases include instances of lending without the lender and borrower directly meeting, where the borrower returns money by transferring it to an account under the name of another party. Lenders may send direct mails based on the personal information described in lists of heavy debtors or solicit an unspecified large number of persons through online advertisements or phone calls. In recent years, there have been cases called "salary factoring," etc. where offenders who have not registered for the money lending business purchase the salary claims held by individuals (workers) against employers and provide them with money to collect the funds related to the claims through such individuals. Large amounts of criminal proceeds are generated, and in 2020, the amount of damages reached over 4.3 billion yen, according to the statistics on cleared loan-shark crimes. In addition, it is recognized that Boryokudan repeatedly and continuously conduct loan sharking as an important source of revenue.
	Modus operandi of money laundering	<ul style="list-style-type: none"> Loan sharks required borrowers to send repayments to a post-office box opened under the name of another individual or a fictitious business operator. Loan sharks made borrowers issue bills and/or checks when borrowing, and if there was any delay in repayment, such bills and/or checks were brought to a financial institution and payment is made to an account under the name of another party. There was also a case where a fictitious sales agreement was made with the borrower and debt repayment was obtained by settling the deferred payment.

3. Analysis of Money-Laundering Cases, etc. (Modus Operandi): 3/4

Predicate Offenses	Assessment and Analysis Results	
Violation of the Immigration Control Act	Forms of offenses	<ul style="list-style-type: none"> There have been cases where a foreigner forges a residence card for the purpose of giving an appearance of legitimacy when entering Japan, passing for a legal resident or a person with a valid work permit, etc.; cases where a foreigner possesses, uses, provides, or receives a forged residence card; cases where an offender forces a foreigner who does not have a work permit to work or arranges illegal employment for such a foreigner. In particular, regarding the promotion of illegal employment, there are cases of human trafficking where an offender places foreigners under his/her control by taking away their passports, etc., and forcing them to work. The number of cleared cases of violations of the Immigration Control Act was 6,534 in 2020, which is a 10.8% increase from the previous year, and the number of cleared cases of possessing forged residence card, etc. was 790, which is the highest since 2013 when the statistic started being recorded.
	Modus operandi of money laundering	<ul style="list-style-type: none"> The proceeds from the sales forged residence cards were transferred to accounts under the name of other parties. Boryokudan members received cash as a protection fee knowing that the cash was criminal proceeds obtained through the promotion of illegal employment.
Habitual gambling/ Running a gambling place for profit	Forms of offenses	<ul style="list-style-type: none"> There are various forms of gambling offenses, such as online casino gambling, in addition to hanafuda gambling, baseball gambling, and game-machine gambling. The reality is that Boryokudan are deeply involved in such gambling offenses, either directly or indirectly, and gambling is an important source of funds for them. In 2020, the orders were issued for about 158.6 million yen in cash in connection with illegal gambling facilities.
	Modus operandi of money laundering	<ul style="list-style-type: none"> A gambling offense was committed in an online casino in which money bet by customers had to be paid to an account opened under another person's name. Dividends were transferred to accounts under the name of another person in baseball gambling, etc. Criminal proceeds obtained via gambling offenses were processed as legal business proceeds using an innocent certified public tax accountant, etc.

3. Analysis of Money-Laundering Cases, etc. (Modus Operandi): 4/4

Predicate Offenses	Assessment and Analysis Results	
Violation of the Amusement Business Act/ Violation of the Anti-Prostitution Act	Forms of offenses	<ul style="list-style-type: none"> Boryokudan have been directly or indirectly involved in certain cases. Examples include association with operators of illegal adult-entertainment businesses or sex-related amusement. Criminal proceeds from amusement-related offenses are an important source of funds for them. There were cases where foreigners who were staying illegally in Japan worked in the adult-entertainment business, etc. and cases where offenders forced victims to engage in prostitution by using violence, intimidation, etc.
	Modus operandi of money laundering	<ul style="list-style-type: none"> Proceeds paid for arranging women for illegal adult-entertainment business, etc. were transferred to an account under the name of an offender. A Boryokudan member received proceeds from prostitution through a bank account under the name of a family member.
Narcotics-related crimes	Forms of offenses	<ul style="list-style-type: none"> Stimulant-related crimes, which account for more than 60% of all narcotics-related crimes. It can be assumed that smuggling and illicit trafficking of stimulants still generate a large amount of criminal proceeds. Boryokudan gangsters, etc. accounted for at least 40% of the offenders in cleared cases of stimulant-related crimes during 2020. The reality is that Boryokudan is deeply involved. Cannabis-related crimes, which account for more than 30% of all narcotics-related crimes, have been increasing since 2013. In particular, the number of young people arrested for cannabis-related crimes has increased significantly. Boryokudan is still involved in the smuggling of cannabis. Evidence gathered in recent years strongly suggests that Boryokudan collude with overseas drug-related criminal organizations, and is becoming more involved in the distribution of stimulants. As for the offshore transaction of stimulant smuggling crimes, in 2019, Boryokudan gangsters and Taiwanese were arrested in a case where about 587 kg was seized. Regarding narcotic trafficking crimes in 2020, the number of cases where offenders engaged in narcotic trafficking by carrying them on airplanes has decreased, while the number of cases where they used international courier services or postal services has increased.
	Modus operandi of money laundering	<ul style="list-style-type: none"> A case where traffickers of stimulants by hand delivery or mail had payments transferred to an account under the name of another person. A case where traffickers of cannabis, etc. by using door-to-door delivery services had payments transferred to an account under the name of another person.

3. Analysis of Money-Laundering Cases, etc. (STRs)

- ✓ Looking at the number of STRs submitted in 2020 by business type, banks, etc. occupy the largest share, accounting for 74.0% (319,812), followed by credit card companies 6.7% (29,138) and money lending companies 5.8% (25,255) .
- ✓ The number of STRs used for the investigation, etc. by the prefectural police in 2020 was 325,643.

【Number of Received STRs by Each Business Type】

Category	Year	2018	2019	2020
		Number of reports	Number of reports	Number of reports
Financial institutions, etc		401,155	415,299	402,868
Deposit-taking institutions		363,380	366,973	342,226
Banks, etc.		346,014	344,523	319,812
Shinkin Banks, Credit Cooperative		14,375	19,487	19,793
Labour Banks		467	371	300
Norinchukin Banks, etc.		2,524	2,592	2,321
Insurance Companies		2,671	2,876	2,635
Financial Instruments Business Operators		13,345	17,116	17,933
Money Lenders		12,396	17,316	25,255
Fund Transfer Service Providers		1,391	3,913	6,040
Crypto-assets Exchange Service Providers		7,096	5,996	8,023
Commodity Derivatives Business Operators		50	256	320
Currency Exchange Operators		649	712	252
Electronic Monetary Claim Recording Institutions		10	4	5
Others		167	137	179
Financial Leasing Operators		222	270	123
Credit Card Operators		15,114	24,691	29,138
Real Estate Brokers		8	6	7
Dealers in Precious Metals and Stones		952	217	63
Postal Receiving Service Providers		6	4	2
Telephone Receiving Service Providers		0	0	0
Telephone Forwarding Service Providers		8	5	1
Total		417,465	440,492	432,202

【Number of STRs Used for Investigative Purposes, etc.】

	2018	2019	2020
Number of STRs used in investigation	314,296	307,786	325,643

Examples of cleared cases using STRs in investigation of initiated cases

Information on suspicious transactions reported by specified business operators is utilized in the investigation of money laundering, predicate offenses, etc.

- ✓ Cases of Violating the Act on Punishment of Organized Crimes, etc.
- ✓ Fraud Cases
- ✓ Cases of Violation of the Investment Act and Violation of the Money Lending Business Act
- ✓ Case of Violation of the Immigration Control and Refugee Recognition Act
- ✓ Narcotics-related crimes
- ✓ Case of Violating the Banking Act (Underground Banking)
- ✓ Cases of Fraud and Violating the Act on Prevention of Transfer of Criminal Proceeds

4. Risk of Transaction Types, Country/Regions, and Customer Attributes

- ✓ Referring to the FATF Recommendations, cleared cases of money-laundering offences, etc., analysis and assessment of risks were conducted from the viewpoints of "transaction types," "countries/regions," and "customer attributes."
- ✓ The following is an overview of risk assessment for each of the above viewpoints.

(1) Transaction Types

Attributes	Assessment of Risks
Non-face-to-face Transactions	<ul style="list-style-type: none"> • Non-face-to-face transactions via the Internet, etc. have been increasing due to the development of information communications technologies, improvement in services by specified business operators that take into account the convenience of customers, and measures for preventing the spread of COVID-19. • As non-face-to-face transactions may hinder specified business operators from directly seeing customers and identification documents, the accuracy of customer identification can be deteriorated. Therefore, compared with face-to-face transactions, non-face-to-face transactions make it easier for offenders to falsify customer identification data and pretend to be a fictitious or other person by falsifying identification documents, etc. • Actually, there are cases where non-face-to-face transactions have been misused for money laundering, including a case where bank accounts opened by pretending to be another person were misused. Considering this, it is recognized that non-face-to-face transactions present a high risk of being misused for ML/TF.
Cash Transactions	<ul style="list-style-type: none"> • Use of cash in Japan is higher than that in other countries. • In general, cash transactions have high liquidity and anonymity. Therefore, cash transactions may hinder the tracing of criminal proceeds unless business operators dealing with cash properly prepare transaction records. • In fact, there have been many cases where money launderers misused cash transactions by pretending to be other people. Considering this, it is recognized that cash transactions have carry a high risk of being misused for ML/TF.
International Transactions	<ul style="list-style-type: none"> • In transactions with foreign countries, it is difficult to trace transferred funds compared to domestic transactions because of the difference in legal systems and transaction systems. • In fact, in some cases, money laundering has been conducted through international transactions. Therefore, it is recognized that international transactions pose a risk for being misused in ML/TF. • Transactions related to countries and regions where proper AML/CFT measures are not implemented and International remittances originated from large amounts of cash, etc. are recognized as high risk.

4. Risk of Transaction Types, Country/Regions, and Customer Attributes

(2) Countries/Regions

Assessment of Risks

- We understand that transactions related to Iran or North Korea pose very high risks.
- The FATF published the names of countries/regions that have serious strategic deficiencies related to AML/CFT measures and have developed action plans to deal with them as countries/regions that continue to improve the international AML/CFT measures. The FATF is calling on those countries/regions to promptly put those plans into action within the proposed periods of time. Therefore, transactions conducted with those countries/regions before the deficiencies pointed out by FATF are resolved are recognized to be risky.

(3) Customer Attributes^①

Attributes

Assessment of Risks

Anti-social Forces (Boryokudan, etc.)

- Other than committing various crimes to gain profit, Boryokudan and other anti-social forces conduct fundraising activities by disguising them as or misusing business operations. As money laundering makes the source of funds from criminal activities or fundraising activities unclear, money laundering is indispensable for anti-social forces. Since anti-social forces engage in money laundering, transactions with anti-social forces are considered to present high risk.

International terrorists (Such as Islamic Extremists)

- Japan has been implementing the abovementioned measures. As a result, no person of Japanese nationality or residency has been included in the list of persons whom asset freezing measures are implemented against pursuant to the United Nations Security Council resolutions (No. 1267 and succeeding resolutions as well as No. 1373), and there have been no terrorist acts carried out in Japan by the terrorists designated by the United Nations Security Council so far.
- However, the FATF pointed out in its report released in 2019 that even when there have not been any cases of terrorist attacks or terrorist financing in a country, that fact does not immediately lead to the conclusion that the risk of terrorist financing is low; the possibility of funds being collected in that country and being remitted overseas should not be excluded.
- In light of the matters related to the threat of terrorism to Japan and the threat of and vulnerability to terrorist financing that have been pointed out internationally, the following activities should be recognized as concerns:
 - Products and services provided by specified business operators can avoid their monitoring to be misused, etc.
 In particular, it is acknowledged that there is a high risk of terrorist financing when conducting transactions with people who are considered to be Islamic extremists.

(3) Customer Attributes②

Attributes	Assessment of Risks
<p>Non-resident Customers</p>	<ul style="list-style-type: none"> In the case of transactions with non-resident customers, specified business operators have limited measures to conduct ongoing CDD compared with customers residing in Japan. Furthermore, when non-face-to-face transactions are conducted or when identification documents issued by foreign governments, etc. are used, anonymity will increase, and it is more difficult to track funds if ML/TF or the like is performed. Therefore, it is recognized that transactions with non-resident customers present a high risk in terms of ML/TF.
<p>Foreign Politically Exposed Persons</p>	<ul style="list-style-type: none"> Foreign PEPs have positions and influence that can be misused for ML/TF. Grasp of their identification data, etc. is limited, and efforts to introduce anti-corruption measures vary from jurisdiction to jurisdiction. Depending on the situation, it is recognized that transactions with foreign PEPs present a high risk in terms of ML/TF.
<p>Legal Persons without Transparency of Beneficial Ownership</p>	<ul style="list-style-type: none"> Legal persons can make the right and controlling interest in their properties complicated. Beneficial owners of legal persons can conceal that they have substantial rights to such properties by making their properties belong to legal persons. Due to this characteristic of a legal person, it is difficult to trace funds owned by legal persons without transparent beneficial owner. There are examples of cases where a bank account, which was opened in the name of a legal person without transparent beneficial owner, was misused to conceal criminal proceeds derived from fraud and other crimes. Considering this, it is recognized that transactions with legal persons that do not have transparent beneficial owner present a high risk for ML/TF.

5. Risk of Products and Services: 1/7

- ✓ Specified business operators are required to implement appropriate measures based on the Act on Prevention of Transfer of Criminal Proceeds in order to prevent products and services they handle from being misused for ML/TF.
- ✓ The following is an overview of risk assessment for each product and service handled by specified business operators.

(1) Products and Services Dealt with by Deposit-taking Institution

Assessment of Risks

- Deposit-taking institutions provide various products and services, including accounts that guarantee safe fund management, deposit transactions for quick preparation or storage of funds regardless of time and place, exchange transactions for transferring funds from one place to another or to many people quickly and securely, safe-deposit boxes for safe storage of property while maintaining secrecy, and bills and checks that are negotiable and easy to transfer.
On the other hand, those same characteristics of financial products and services can make them convenient for transferring criminal proceeds. There are cases where financial products and services have been misused to receive or conceal criminal proceeds. As such, it is recognized that products and services of deposit-taking institutions present risks of misuse for money laundering.
Furthermore, based on the status and role of Japan as an international financial market, the large financial transaction volume of the industry as a whole, figures in the statistics of transactions misused for ML/TF, cases where cross-border crime organizations are involved, and so on, the risk of misuse for money laundering is considered to be relatively high in comparison with other types of businesses.
- Most of the modus operandi used for cleared cases of concealment of criminal proceeds in 2020 involved money transfer to third-party accounts. There were more than a dozen accounts under the names of other people that had been misused in some past cases. Furthermore, hundreds of passbooks were seized from the crime base of a person arrested for soliciting the transfer of accounts. Accounts in other people' names are the main criminal infrastructure of ML/TF, among others. Deposit-taking institutions who provide the accounts must take continuous measures to prevent the transfer of accounts and subsequently detect illegal transactions.

(2) Insurance Dealt with by Insurance Companies, etc.

Assessment of Risks

- Since insurance products with cash accumulation features enable criminal proceeds to be converted to immediate or deferred assets, they can be a useful measure of ML/TF
- Actually, there are cases where money laundering related to violation of the Anti-Prostitution Act were used to buy insurance products with cash accumulation features. Considering this relevant situation, it is recognized that such insurance products have risks that can be exploited for ML/TF.

(3) Products and Services, etc. Dealt with by Financial Instruments Business Operators, etc. and Commodity Derivatives Business Operators

Assessment of Risks

- Financial instruments business operators and commodity derivatives business operators provide products and services for customers to conduct stock investment and commodity derivatives transactions, etc. Offenders planning to engage in ML/TF use such products and services to convert criminal proceeds to various rights, etc. and increase such obtained rights, etc. using criminal proceeds.
- Some financial instruments business operators manage funds contributed to investment funds. If funds from criminal proceeds are provided for investment funds with complex structures, it becomes difficult to trace the source of funds. Therefore, investment made through financial instruments business operators and commodity derivatives business operators can be an effective method for money laundering.
- Indeed, there are cases where criminal proceeds from fraud or embezzlement have been invested in stocks or commodity derivatives. Considering relevant situations, it is recognized that investment made through financial instruments business operators, etc. and commodity derivatives business operators may involve risks of misuse for ML/TF.

(4) Trust Dealt with by Trust Companies etc.

Assessment of Risks

- Trusts have the functions of transferring property rights from a settlor to a trustee, changing the nominee of the property when it is subject to a registration system, and altering the attribution, quantity and nature of the property. Furthermore, trusts can come into force on conclusion of a trust contract between parties involved or as self-settled trust. Because of such characteristics, offenders attempting ML/TF may be able to separate themselves from criminal proceeds and conceal the relationship with the proceeds if they misuse a trust.
- No cleared money laundering case involving misusing trusts has been reported in Japan in recent years. However, these characteristics mean that trusts can be considered as risky for misuse in ML/TF.

(5) Money Lending Dealt with by Money Lenders, etc.

Assessment of Risks

- Money lending by money lenders, etc. can make tracking criminal proceeds difficult. Considering a relevant situation, it is recognized that money lending by money lenders, etc. carries the risk of misuse for ML/TF.
- There are cases where an offender carried out loan fraud by identifying himself as a fictitious person, etc. and deposited fraudulent money into an account under the fictitious name that has been opened in advance. There is a risk of misuse for generating criminal proceeds.

(6) Funds Transfer Services Dealt with by Funds Transfer Service Providers

Assessment of Risks

- Funds transfer services can be a useful method for ML/TF, given the characteristics of funds transfer services in which foreign exchange transactions are performed as a business, as well as the existence of funds transfer service providers that offer services to remit to many countries and the existence of type I funds transfer services, which allow large amounts of foreign exchange transactions.
- Actually, there have been cases where criminal proceeds were transferred overseas through funds transfer services by using third parties who were not involved in predicate offenses or by using another person's identification documents and pretending to be the person. There have also been cases where a malicious third party opened an account at a funds transfer service provider under the name of an account holder after obtaining the account information of the account holder illegally, linked the account with a bank account, and illegally withdrew money by depositing funds (recharging) from the bank account to an account at the funds transfer service provider. Considering these situations, it is recognized that funds transfer services present risks of misuse for ML/TF.
- In light of the fact that both the number of remittances per year and the amount handled per year by funds transfer service providers are increasing, the fact that their use is expected to increase due to the increasing number of foreign residents in Japan, and the fact that there is an ongoing discussion as to whether the payment of wages to accounts at funds transfer service providers should be allowed or their participation in the zengin system (all-bank data telecommunications system) should be allowed, we consider the degree of risk that funds transfer services present in terms of misuse for ML/TF to be growing compared to other business categories.

(7) Crypto-assets Dealt with by Crypto-assets Exchange Service Providers

Assessment of Risks

- The important characteristics of crypto-assets are that its users are highly anonymous and the transfer of crypto-assets can be instantly executed across national borders. In addition, the regulation of crypto-assets differs from country to country. In light of these factors, if crypto-assets are misused for crimes, it is difficult to trace the transfer of the crypto-assets.
- Considering actual cases where the anonymity of crypto-assets was misused to convert illegally obtained crypto-assets into cash through a crypto-assets exchange service provider and remit the money to an account opened in another person's name, it is recognized that crypto-assets are at risk of being misused for ML/TF.
- And, considering that crypto-assets transactions are increasing globally and the environment surrounding such transactions is rapidly changing, it is recognized that the level of risk for misuse of crypto-assets for ML/TF, is relatively high in comparison to other types of business.
- It is not easy to implement measures to lower the degree of risk timely and appropriately due to the rapid change in the environment surrounding crypto-assets transactions, so crypto-assets exchange service providers need to implement high-level measures in advance. If such measures are not taken sufficiently, crypto-assets exchange service providers will not be able to lower the degree of risk appropriately, and the degree of risk will remain high.

(8) Foreign Currency Exchanges Dealt with by Currency Exchange Operators

Assessment of Risks

- Foreign-currency exchange can be a part of a strategy to take the proceeds of crime abroad. Foreign-currency exchange is usually carried out in cash, which is highly liquid and can be possessed or transferred without information about the bearer. From these characteristics, foreign-currency exchange can be a useful way to launder money or finance terrorism.
- Actually, there has been a case where foreign currency obtained as criminal proceeds of crime committed overseas was converted to Japanese yen through a third party who did not know the actual circumstances. Considering this relevant situation, it is recognized that foreign-currency exchange carries risks of misuse for ML/TF.

(9) Financial Leasing Dealt with by Financial Leasing Operators

Assessment of Risks

- Although there were no cleared money laundering cases involving the misuse of financial leasing, because finance leases have the characteristic of a lessee and a seller being able to conspire to conduct a false transaction, it is considered that finance leases are at risk of being misused for ML/TF.

(10) Credit Cards Dealt with by Credit Card Operators

Assessment of Risks

- Credit cards allow a holder of criminal proceeds in cash to transform them into different kinds of property. It is also possible to transfer funds by providing a credit card to a third party and making him purchase products. Considering this, it is recognized that credit cards present the risk of misuse for ML/TF.

(11) Real Estate Dealt with by Real Estate Brokers

Assessment of Risks

- Real estate has high value and can be exchanged for large amounts of cash. Furthermore, it is possible for offenders to transfer criminal proceeds by, for example, paying more than the market value for a property. From these aspects, real estate can be a convenient instrument for ML/TF.
- Actually, there have been some cases where criminal proceeds from prostitution or fraud were used to buy real estate. Considering this, real estate presents a risk of misuse for ML/TF.
- Recently, there have been many cases where real estate was purchased for the purpose of preserving assets or investment, and there is a risk that crime organizations in and outside Japan, etc. have been misusing real estate transactions to change the form of criminal proceeds.

(12) Precious Metals and Stones Dealt with by Dealers in Precious Metals and Stones

Assessment of Risks

- Precious stones and metals have high financial value, are easy to transport and exchanged with cash all over the world, and are highly anonymous because it is difficult to trace their distribution channel and location after transactions. In particular, since gold bullion are usually purchased with cash, they can be an effective method for ML/TF.
- Actually, there are cases where offenders pretended to be another person and bought precious metals with cash derived from crimes. Considering this, precious metals and stones present a high risk of misuse for ML/TF.

(13) Postal Receiving Services Dealt with by Postal Receiving Service Providers

Assessment of Risks

- Postal receiving services are misused to provide locations for sending proceeds derived from crime, such as fraud and sales of illegal goods. If falsified customer identification data is provided to conclude a service contract, it can be difficult to identify the party committing the ML/TF or ownership of the criminal proceeds. Therefore, postal receiving services can be an effective instrument for ML/TF.
- Actually, there are cases where offenders made contract with postal receiving service providers under fictitious names and deceived the providers into receiving criminal proceeds through concealment. Considering this, it is recognized that postal receiving services present a risk of misuse for ML/TF.

(14) Telephone Receiving Services Dealt with by Telephone Receiving Service Providers

Assessment of Risks

- Recently we have not seen any cleared cases for money laundering involving misuse of a telephone receiving service providers. However, since telephone receiving services have the characteristic of enabling customers to create a fictitious appearance for their business and to disguise the principal of an ML/TF operation and the ownership of criminal proceeds unclear, it is considered that telephone receiving services present a risk of being misused for ML/TF.

(15) Telephone Forwarding Services Dealt with by Telephone Forwarding Service Providers

Assessment of Risks

- By using telephone forwarding services, customers can give their business a false appearance and conceal the offenders committing ML/TF or the ownership of criminal proceeds. Thus, it is recognized that telephone forwarding services present a risk of being misused for ML/TF concealing the criminal proceeds obtained from specialized fraud, etc.

(16) Legal/Accounting Services Dealt with by Legal/Accounting Professionals

Assessment of Risks

- Legal/accounting professionals have high expertise in law and accounting, as well as high social credibility. Transactions through their services and related affairs can be an effective means of ML/TF.
- Actually, there are cases where services of legal/accounting professionals have been misused to disguise concealment of criminal proceeds as legitimate transactions. Considering this, it is recognized that when legal/accounting professionals conduct following transactions on behalf of clients, the services present a risk of misuse for ML/TF.
 - Acts or procedures concerning buying and selling residential lots and buildings
 - Acts or procedures concerning the establishment or merger of companies, etc.
 - Management or disposal of cash, deposits, securities and other assets

- In light of the results of the assessment presented in this NRA-FUR, competent authorities need to continue to make sure that specified business operators comply with the obligations under the laws and regulations, to identify and understand ML/TF risks associated with their supervising business operators, and to provide further guidance and conduct supervision on a risk-based approach. Particularly for business operators whose efforts in AML/CFT at lower level, competent authorities need to provide guidance and conduct supervision properly. In parallel, for those business operators, competent authorities need to share the information including good practices for AML/CFT compliance in collaboration with industry associations in order to improve the level of AML/CFT measures of the whole industry of complying with the requirements such as suspicious transaction reporting and establishing appropriate internal AML/CFT mechanism. Competent authorities should also continue their efforts of monitoring business operators' compliance of AML/CFT requirements.
- Specified business operators need to comply with their obligations under the laws and regulations as a matter of course. Moreover, not only simply verifying whether there is a violation of laws and regulations, but also business operators need to identify the risks they face and take appropriate measures such as reporting of suspicious transaction by taking into account the characteristics of their businesses and risks associated therewith comprehensively and concretely. In particular, for products and services that are at a relatively higher or increasing risk of misuse for ML/TF than other business categories, substantial AML/CFT measures need to be implemented to mitigate individual risk properly.
- Taking the opportunity of the publication of the FATF Fourth Round of Mutual Evaluation Report of Japan, in August 2021, the Government of Japan established the "Inter-Ministerial Council for AML/CFT/CPF Policy" jointly chaired by the National Police Agency and the Ministry of Finance in order to strongly advance the Government's measures as a whole. At the same time, the Government of Japan formulated and released the AML/CFT/CPF Action Plan for the next three years. This action plan aims to improve legislative framework and the implementation of AML/CFT/CPF measures. Specifically, for example, the action plan lists the following action items: renewing the National Risk Assessment, strengthening supervision of AML/CFT/CPF measures taken by specified business operators, enhancing transparency of beneficial ownership information, establishment of a task force to improve the prosecution rate for money laundering offenses, enhancing ML investigation and prosecution and increasing the prosecution rate of ML cases with the efforts including the establishment of the task force, and prevention from abusing the NPO sector. It is important to ensure that the action plan will be implemented steadily while taking into account the risks identified in the national risk assessment reports. Furthermore, to work steadily on necessary legislative actions, the Government of Japan established the Office for Legislative Responses to the FATF Recommendations in the Cabinet Secretariat.

- To further promote AML/CFT measures nationwide, competent authorities and specified business operators need to collaborate to raise public awareness on AML/CFT measures, get understanding on the importance of the measures, and obtain cooperation of specified business operators. To this end, competent authorities and specified business operators need to continuously and strongly promote the outreach to the citizens by employing various tools.
- It is expected that financial flows of criminal proceeds and terrorism financing will be diversified as globalization of the economic activities and the development of new technologies go on in the future. It is critical for competent authorities and specified business operators to fully understand their roles mentioned above and make efforts to implement AML/CFT measures in cooperation with one another by taking into account the risks presented in this report and domestic/global trends, in order to prevent the transfer of criminal proceeds and terrorism financing effectively, continue to secure the safety and peace of citizens, and contribute to the sound economic development.