

FATF



Anti-money laundering and counter-terrorist financing measures

Japan

3rd Follow-Up Report &
Technical Compliance Re-Rating

October 2024

Follow-up report





The Financial Action Task Force (FATF) is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. The FATF Recommendations are recognised as the global anti-money laundering (AML) and counter-terrorist financing (CTF) standard.

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Japan's 3rd Enhanced Follow-up Report

Introduction

The FATF Plenary adopted the mutual evaluation report (MER) of Japan in June 2021.¹ Based on the MER results, Japan was placed into enhanced follow-up. Japan's 1st Enhanced Follow-up Report (FUR) with technical compliance re-ratings was adopted in June 2022² and its 2nd enhanced FUR was adopted in October 2023.³ This 3rd enhanced FUR analyses Japan's progress in addressing the technical compliance deficiencies identified in its MER, relating to Recommendations 7, 8, 12, 22, 23 and 25. Re-ratings are given where sufficient progress has been made.

Overall, the expectation is that countries will have addressed most, if not all, technical compliance deficiencies by the end of the third year from the adoption of their MER. This report does not address what progress Japan has made to improve its effectiveness.

The following experts, supported by Stephanie UKPELUKPE, Policy Analyst from the FATF Secretariat, assessed Japan's request for technical compliance re-ratings:

- Mr. Hamza Saracoglu, Senior CFT expert, Turkish Gendarmerie General Command Minister of Interior; and
- Mr. James Reston, Policy Advisor, US Department of the Treasury.

The second section of this report summarises Japan's progress in improving technical compliance. The third section sets out the conclusion and includes a table showing Japan's MER ratings and updated ratings based on this and previous FURs.

Progress to improve Technical Compliance

This section summarises Japan's progress to improve its technical compliance by:

- a) addressing most of the technical compliance deficiencies identified in the MER or any previous FURs (R.7, R.8, R.12, R.22, R.23, R.25).

Progress to address technical compliance deficiencies identified in the MER

Japan has made progress to address the technical compliance deficiencies identified in the MER in relation to R. 7, R.8, R.12, R.22, R.23 and R.25. Because of this progress, Japan has been re-rated on these Recommendations.

¹ www.fatf-gafi.org/publications/mutualevaluations/documents/mer-japan-2021.html

² www.fatf-gafi.org/en/publications/Mutualevaluations/Fur-japan-2022.html

³ www.fatf-gafi.org/en/publications/Mutualevaluations/Japan-FUR-2023.html

Recommendation 7

	Year	Rating
MER	2021	PC
FUR1	2022	PC (not re-assessed)
FUR2	2023	PC (not re-assessed)
FUR3	2024	↑ LC

Criterion 7.1 (*Met*)

Japan did not fully meet the requirements of this criterion at the time of the MER, as Japan’s process for implementing proliferation financing-related (PF-related) TFS under the Foreign Exchange and Foreign Trade Act (FEFTA) was subject to delays, and impeded by a gap regarding domestic transfers between two Japanese residents (where one party is designated) and ambiguity associated with the terms “payments” and “capital transactions” in the FEFTA. Since the MER, Japan revised its administrative procedures to implement PF-TFS within 24 hrs via three communication channels. First, publication of a public notice in the Official Gazette without delay of a designation by the United Nations Sanctions Committees. Second, in order to ensure the effectiveness of the asset-freezing measures, the Ministry of Finance (MOF) notifies FIs, including VASPs, and other MVTS providers of the designations via e-mail prior to the public notice. Third, the MOFA, the MOF, and the Ministry of Economy, Trade and Industry (METI) jointly issue a press release on the day of the public notice, and the list of the targets is updated on the websites of the National Police Agency (NPA), the MOF, and the MOFA to inform the widest audience possible. This process works the same way during weekends and holidays.

Furthermore, amendments to the Terrorist etc. Assets Freezing Act (TAFA) (effective June 2023) now also enable asset freezing of domestic transactions of PF designated persons (Art. 3, 2). Following these revisions, the MOFA, MOF, METI and NPA adopted a revised Memorandum of Understanding on the administrative procedure for asset freezing to implement asset freezing “without delay” pursuant to the TAFA. These amendments in TAFA(Art. 9) and Interpretation and Implementation Standards of the Act address gaps in relation to domestic transfers, by obliging individuals/entities to seek permission from relevant authorities to conduct domestic financial transactions.

Moreover, Japan published an Interpretive Note for Implementing FEFTA in October 2020, which defines “payments” as used in Article 16 of the FEFTA in the same terms as “funds or other assets” in the FATF Standards in order to remove ambiguity associated with the term.

Criterion 7.2. (*Partly met*)

(c.7.2(a)) At the time of the MER, Japan did not fully meet this sub-criterion, as implementation occurred with delay. The MER erroneously omitted from this sub-criterion that asset freezing obligations did not apply in relation to Japanese designees, where funds were transferred between Japanese residents (which was reflected in c.7.1 and 7.2(b) at the time of the MER). As noted in the MER, following Official Gazette notice of a given designation of persons and/or entities, FEFTA prohibits (in the absence of specific pre-authorization from the MOF) all natural and legal persons from engaging in “payments” and “capital transactions” involving those persons and/or entities, provided those persons and/or entities

are either non-residents or located outside Japan (Arts. 16 and 21, etc.). Since the MER, Japan amended the FEFTA to extend asset-freezing obligations, or funds transfer obligations to virtual assets and electronic payment instruments (so-called stable coins). Furthermore, amendments to the TAFE (Arts. 3 and 9) now enable asset freezing of domestic transactions of PF designated persons, in addition to the general transaction prohibition with DPRK under FEFTA. Accordingly, Japan has revised its administrative procedures to implement PF-TFS within 24 hours (see c.7.1) and obligations extend to all natural and legal persons. FEFTA (Arts. 16 and 21 etc.), as well of TAFE (Arts. 3) require freezing ‘without delay’ because of the mechanisms explained above for without delay publication of lists in the gazette and immediate application of freezing obligations upon publication. Since FEFTA and TAFE require the entity to immediately refrain from performing any action, the “freeze” applies without delay and without prior notice.

(c.7.2(b)) Japan did not fully meet this sub-criterion at the time of the MER, as it was unclear whether freezing obligations extended to all funds or other assets in line with the FATF definition. Further, Japan had not demonstrated that asset-freezing obligations extended to (i) all funds or other assets that are owned or controlled by the designated person or entity; (ii) funds or other assets that are wholly or jointly owned or controlled, directly or indirectly, by designated persons or entities; (iii) funds or other assets derived from or generated from or other assets owned or controlled directly or indirectly by designated persons or entities; or (iv) funds or other assets of persons and entities acting on behalf of, or at the direction of designated persons or entities. Since the MER, Japan published an Interpretive Note for Implementing FEFTA in October 2020, which defines “payments” as used in Article 16 of the FEFTA in the same terms as “funds or other assets” in the FATF Standards in order to remove ambiguity associated with the terms.

Furthermore, the MOF issued revised public notices in June 2023 on payments and capital transactions regulations to clarify that the asset freezing obligations under FEFTA extend to: payments and capital transactions made in the name of a person other than the designated persons or entities on behalf of the designated persons or entities and those made directly or indirectly on behalf of the designated persons or entities. The MoF also issued several public notices and a ministry notification detailing the interpretation of TAFE, which extends asset-freezing obligations to (i) all funds or other assets that are owned or controlled by the designated person or entity and (iv) funds or other assets of persons and entities acting on behalf of, or at the direction of designated persons or entities. The deficiencies identified in the MER has been addressed to some extent, however it remains unclear whether the regulations of the FEFTA and TAFE extend freezing obligations to sub-elements (ii) and (iii).

(c.7.2(c)) As noted in the MER, residents or non-residents in Japan must seek permission to conduct a “payment” or “capital transaction” involving a designated party that is either a non-resident of or located outside Japan (FEFTA, Arts. 16 and 21). TAFE (Art. 9) also prevents designated persons and entities from receiving gifts of the designated assets and from performing deposits and savings, thereby prohibiting the provision of funds or other assets to such designated persons and entities.

(c.7.2(d)) Japan did not fully meet the requirements of this sub-criterion at the time of the MER, as Japan did not appear to provide specific guidance to FIs and DNFBPs as to their asset freezing obligations under the FEFTA. Since the MER, the MOF published "Guidelines for Foreign Exchange Transactions Service Providers on Compliance with the FEFTA" in November 2023, which includes required actions to comply with asset freezing measures under the FEFTA. These cover obligations of foreign exchange service providers, including banks, VASPs, MVTS providers and currency exchange operators (Foreign Exchange Order article 18-10). DNFBPs and any persons conducting external payments/transactions or with designated persons/entities are encouraged to comply. Although mutual loan companies, low cost/short term insurers, trust companies and money market brokers/dealers, which are less likely to hold targeted funds or other assets, are not specifically covered in the Foreign Exchange Transactions Service Providers guidelines, this gap is mitigated to some extent through the fact that the guidelines extend to any person/entity who conduct external payments/transactions. Therefore, this deficiency remains minor.

Furthermore, in AML/CFT Guidelines, the FSA requires the FIs to ensure that sanctions lists are up-to-date, effectively managed to screen the details of transactions, and that the criteria for detecting sanctioned items are reviewed and set at an appropriate frequency according to risk. In addition, DNFBP supervisors have established guidelines for each sector between 2021 to 2024, which set out obligations to screen the names of the customer and beneficial owners against designation lists at the time of transactions and of designation and to make sure that the lists are kept up to date. Screening the names of the customer and beneficial owners at the time of transactions is consistent with the fact that most DNFBPs do not have custody of funds or other assets.

(c.7.2(e)) Japan did not fully meet the requirements of this sub-criterion at the time of the MER, as DNFBPs were not required to report assets frozen or related actions. As noted in the MER, Japan requires FIs to report any assets frozen or other actions taken in compliance with relevant UNSCRs (FEFTA, Art. 55(8)). FEFTA remains silent regarding the obligation of DNFBPs to report frozen assets. However, DNFBPs are notified by MOF through supervisory letters of new designations. These letters require DNFBPs to verify immediately whether their customers are on the updated list of designated persons and entities and take appropriate actions to avoid transferring assets under their custody and to notify MOF when they identify designated persons /entities among their customers.

(c.7.2(f)) As noted in the MER, the licensing framework for asset-freezing established by the FEFTA allows the Minister of Finance to permit otherwise-prohibited transactions, such as those necessary to protect the rights of bona fide third parties acting in good faith (art. 16). In addition, the TAFE provides that the government shall compensate third parties for losses incurred as a result of restrictions under TAFE (Art. 24). Japanese authorities thus take measures sufficient to protect the rights of bona fide third parties. This sub-criterion remains unchanged.

Criterion 7.3 (Met)

Japan did not fully meet the requirements of this criterion at the time of the MER, as DNFBPs were not systematically monitored for compliance with FEFTA. Since the MER, DNFBP supervisors issued guidelines between 2021 and 2024 (see also R.22). These guidelines, inter alia, set out requirements for DNFBPs in respect of

obligations under this recommendation. In addition, competent authorities conduct inspections and other supervision activities to monitor that effective measures for asset freezing are in place based on these specific guidelines and the APTCP.

Criterion 7.4 (*Mostly met*)

(c.7.4(a)) As noted in the MER, Japan informs sanctioned entities/persons via the MOFA website of the option to directly petition the Focal Point for de-listing established pursuant to UNSCR 1730. This sub-criterion remains unchanged.

(c.7.4(b)) As noted in the MER, the requirement under FEFTA to seek MOF approval before making “payments” or “capital transactions” involving a designated party constitutes publicly known procedures to unfreeze funds of parties inadvertently affected by a freezing mechanism. The same procedure applies to designations under the new TAFE provisions. This criterion remains unchanged.

(c.7.4(c)) As noted in the MER, the licensing framework for asset-freezing established by the FEFTA allows the Minister of Finance to permit otherwise-prohibited transactions. Similarly, TAFE allows the Prefectural Public Safety commissions to permit designated persons/entities to access certain assets. Japanese authorities are thus empowered to authorise access to certain assets that meet the exemption conditions set forth in UNSCR1718.

(c.7.4(d)) Japan did not fully meet the requirements of this sub-criterion at the time of the MER, as guidance had not been provided to FIs, DNFBPs or other persons and entities that may be holding funds or other assets, in relation to their obligations to respect a delisting or unfreezing decisions. Since the MER, the MOF published "Guidelines for Foreign Exchange Transactions Service Providers on Compliance with the FEFTA", which covers obligations in respect of asset freezing, including the need for screening when delistings occur. However, some FIs, including mutual loan companies, low cost/short term insurers, trust companies, money market brokers/dealers and others defined in the MER, are not covered in the definition of foreign exchange service providers. While DNFBP supervisors have issued guidelines, these do not mention requirements in relation to de-listing or unfreezing action, other than a reminder to screen the customer against the relevant UN sanctions list to unfreeze assets of individuals or entities that have been de-listed.

Criterion 7.5 (*Met*)

(c.7.5(a)) As noted in the MER, FEFTA does not automatically permit the addition of interests or other earnings due to prior contracts, etc. to accounts frozen pursuant to UNSCRs 1718, but does provide that these accounts shall remain frozen. The FEFTA does, however, authorise the Minister of Finance to approve the addition of interest or other earning due to prior contracts, etc. upon request and subsequent determination by the Minister that the criteria under relevant UNSCRs are sufficiently satisfied (Art.16). Similarly, the TAFE (Art.11) allows the Prefectural Public Safety Commissions to permit the addition of interest or other earning due to prior contracts, etc.

(c.7.5(b)) This sub-criterion is not applicable, as the TFS elements of UNSCR 2231 expired on 18 October 2023. Therefore, this FUR did not assess the implementation of UNSCR 2231.

Weighting and conclusion: Since the MER, Japan has taken several positive measures such as revised administrative procedures to allow freezing without delay, the applicability of asset-freezing requirements to domestic transactions among Japan residents (where one party is designated), obligations to freeze all “funds or other assets” in line with the FATF definition, TFS applicability to funds or other assets of persons and entities acting on behalf of, or at the direction of designated persons or entities. However, it remains unclear whether FEFTA and TAFE extend freezing obligations to sub-elements (ii) and (iii) of c.7.2(b). Given Japan’s significant risk in relation to proliferation financing from DPRK due to its geographical proximity, Japan has taken additional mitigating measures such as domestic DPRK designations prior to UN designations, blanket prohibition on trading funds and goods to DPRK, movement restrictions of persons, notification requirement for carrying currency and entry ban of all North Korean flag vessels, as a result, this shortcoming is considered minor. **Therefore, Recommendation 7 is re-rated as Largely Compliant.**

Recommendation 8

	Year	Rating
MER	2021	NC
FUR1	2022	NC (not re-assessed)
FUR2	2023	↑ PC
FUR3	2024	↑ LC

Criterion 8.1 (*Mostly met*)

(c.8.1(a)) Japan did not fully meet the requirements of this sub-criterion at the time of FUR2, because NPOs that are not legally incorporated or that fall outside of Japan’s legal framework of NPOs (e.g., ad hoc collection of donations in response to a specific natural disaster) had not been identified. Japan has since appointed an external organisation to research such entities (117 in total). This research suggests that such NPOs handle relatively small amounts compared to all other types of NPOs. Further, the research revealed that these entities have a good understanding of TF risks. It also identified that for one third of these entities overseas remittances account for more than 50% of expenditure. Furthermore, roughly 30% of the activities take place in countries in FATF black-listed or grey-listed countries. 40% of those entities also use other methods in addition to bank remittance such as carrying cash on hand. However, these entities are regulated through FIs under the APTCP and the FEFTA when transferring funds and part of them are obliged to register as a legal person under the Act on General Incorporated Associations and General incorporated Foundations which enables relevant investigative authorities to access that information. As a result, Japan considers that these entities, outside Japan’s NPO framework, which may fall within the FATF definition, present a low TF risk.

(c.8.1(b)) Japan did not fully meet the requirements of this sub-criterion at the time of FUR2, because threats are based on the conclusions of the 2019 FATF Guidance on TF Risk Assessment, rather than based on information pertaining to the NPO sector of Japan. Since then, Japan updated its NRA in 2023 and the TF risk assessment for each category of legal entity within Japan’s legal framework conducted by each responsible authority. The deficiency identified in the previous FUR has been addressed.

(c.8.1(c)) At the time of FUR2, Japan did not fully meet the requirements of this sub-criterion as the adequacy of measures to respond appropriately to TF risk in

the NPO sector had not been reviewed. Since FUR2, Japan has begun reviewing measures and requires competent authorities (prefectures and cities) to report the results of NPO monitoring to inform the review of adequacy of measures. No changes have been made to laws or regulations. Given that the review is ongoing, Japan was not able to demonstrate that feedback from relevant authorities following monitoring has fed into the review or changes of measures. The deficiencies identified in the previous FUR remain.

(c.8.1(d)) As noted in the previous FUR, TF risk in the NPO sector had been assessed in 2019 and included in the overarching ML/TF NRA in 2018. Since the MER, the 2022 NRA reassessed the NPO sector by reviewing new information from several sources, including the conduct of individual thematic risk assessments of NPOs by category. This sub-criterion remains unchanged.

Criterion 8.2 (*Mostly met*)

(c.8.2(a)) Japan did not fully meet the requirement of this sub-criterion at the time of the FUR2, because although its legal framework provided clear policies to promote accountability and integrity, it was unclear whether there were clear policies for NPOs within the FATF definition, that are not captured within Japan's NPO legal framework. This gap remains, as no policies have been established for this category of NPOs. However, this is a minor gap as Japan was able to substantiate that such entities present a low risk as noted above in c.8.1(a).

(c.8.2(b)) At the time of the previous FUR, Japan did not fully meet the requirements of this sub-criterion as outreach activities did not include NPOs that fall outside of Japan's legal framework. It was also unclear whether outreach and educational programmes included measures that can be taken by NPOs to safeguard against TF abuse. Since FUR2, Japan clarified that outreach and educational programmes include measures that can be taken by NPOs, such as guidance for Corporations Engaging in Specified Non-profit Activities (CESNAs). In addition, Japan disseminated CFT leaflets to all entities, except CESNAs. Further, Japan used monitoring processes as an opportunity to explain specific measures. As for entities outside of predefined categories in Japan's NPO legal framework which may fall within the FATF definition, Japan sent explanatory materials on CFT measures while conducting the survey as noted in 8.1(a). However, it remains unclear whether all legal entities outside of Japan's legal framework were covered in the survey, furthermore it is not clear that Japan provides outreach activities to these entities periodically. This deficiency therefore remains.

(c.8.2(c)) As noted in FUR2, Japan worked with NPOs through surveys, conferences, and study groups, which led to developing best practices to address TF risks and vulnerabilities, including the production of guidelines and other measures (e.g., Terrorist Financing Risk Assessment Guidelines for CESNAs). This sub-criterion remains unchanged.

(c.8.2(d)) As noted in the MER, NPO supervisors are instructed (Cabinet Office, MEXT, and MHLW) to advise NPOs of general TF vulnerabilities (e.g., "activities carried out in and around areas exposed to terrorism" and "foreign remittance(s)") and encourage NPOs to use regulated financial channels to the greatest extent possible. This sub-criterion remains unchanged from the MER.

Criterion 8.3 (*Mostly met*)

Japan did not fully meet the requirements of this criterion at the time of FUR2, as NPOs were not yet monitored based on the risk of TF abuse. Since the previous FUR, Japan has taken positive steps by preparing highly exploratory flowcharts for each competent authority (prefectures and cities), which include a risk matrix to determine the risk rating for each entity. Based on the flowcharts, competent authorities identified high risk entities for each category of NPOs, except Incorporated Educational Institutions of which materiality is low. On this basis, Japan conducted monitoring and determined any additional measures needed in respect of high-risk entities based on guidance materials. As a result of monitoring, Japan identified 7 CESNAs as high risk among all entities. However, there are some deficiencies in the monitoring matrixes: firstly, the primary determining risk factor considered is whether an NPO operates overseas, and if so, whether it operates in a FATF listed country. This results in NPOs that operate in countries with high TF risk, but that are not listed by the FATF, being considered low risk. Furthermore, the matrix for Religious Corporations doesn't take NPOs' financial framework into account, only whether an entity is active or inactive. Japan confirmed that flowcharts are the only tool used in determining risk for the monitoring process; this means monitoring is only risk-based to some extent.

Criterion 8.4 (*Mostly met*)

(c.8.4(a)) Japan did not fully meet the requirements of this criterion at the time of FUR2, as NPO monitoring was not considered risk based. Since the previous FUR, Japan has taken positive steps by preparing highly exploratory flow-charts for each competent authority to inform NPO monitoring. Upon monitoring, Japan identified 7 high risk entities (all of them CESNAs). For all of these entities, additional measures were implemented to mitigate TF risks described in guidance materials. Nonetheless, deficiencies identified in the flowcharts and the matrixes contained therein mean monitoring is only risk-based to some extent.

(c.8.4(b)) As noted in the MER, NPO-specific penalties combined with those provided for in the Penal Code allow Japanese authorities to apply effective, proportionate, and dissuasive sanctions for NPO-related violations. This sub-criterion remains unchanged from the MER.

Criterion 8.5 (*Partly met*)

(c.8.5(a)) Japan did not fully meet the requirement of this sub-criterion at the time of FUR2, as it was unclear whether prefectural and local governments effectively cooperate and share information with relevant agencies regarding NPOs. The legal framework has not changed since the previous FUR. Although Japan stated that some responsible authorities requested that each prefectural or local government report to the responsible ministry or agency in the case of high risk, this requirement is limited to reporting the results of monitoring, rather than information regarding risks more widely. In addition, Japan created a "Web Reporting System" to communicate and coordinate between prefectures/cities and the responsible authorities, though this system is limited to CESNAs. There have been formal meetings with prefectures and cities to explain the monitoring flowcharts, and Japan provided statistics to demonstrate the active communication between relevant authorities and prefectural/local government in relation to the flowcharts. However, it is not clear if this level and type of engagement will be maintained.

(c.8.5(b)) Japan did not meet the requirement of this sub-criterion at the time of the FUR2, as it was not clear whether competent authorities had developed investigative expertise to examine NPOs suspected of abuse since the MER. Since the FUR2, Japan notes that there have been no cases of arrests for terrorist financing, regardless of whether NPOs are involved. On the other hand, there have been cases of arrests related to NPOs. The deficiency from the previous FUR remains.

(c.8.5(c)) Japan did not meet the requirement of this sub-criterion at the time of FUR2, as it is not clear whether non-LEAs have the powers and authority to fully access information on the administration and management of particular NPOs suspected of abuse for TF during the course of an investigation. This sub-criterion remains unchanged from the FUR2.

(c.8.5(d)) Japan did not meet the requirement of this sub-criterion at the time of the FUR2, because information sharing about suspected TF abuse is reliant on the Code of Criminal Procedures, and prosecutors and judicial police officers' ability to seize documents and records (Criminal Procedures Act, art. 197). Since the FUR2, Japan has taken further steps to improve information sharing on NPOs (see sub-criterion 8.5(a)). However, the identified gap remains.

Criterion 8.6 (*Met*)

As noted in FUR2, Japan identified appropriate points of contact (MoFA, MoJ, NPA, FSA, NTA, and MoF) to respond to international requests for information regarding NPOs suspected of terrorist financing or involvement in other forms of terrorist support. In addition, Japan adopted procedures to respond to requests pertaining to NPOs, which clarify the role of relevant ministries and agencies. This criterion remains unchanged.

Weighting and conclusion: Since the previous FUR, Japan took several steps to identify the risks of legal entities outside of the NPO legal framework, which may fall within FATF definition, organised outreach activities to relevant authorities to explain flowcharts designed for risk-based monitoring and updated NRA and TF risk assessments for each category of legal entity. However, some shortcomings remain with respect to: (a) review of laws and regulations in order to be able to take proportionate and effective action to the address risks identified (b) risk based monitoring, due to shortcomings in the risk matrix used by authorities and (c) challenges in information sharing and powers for non-LEAs to access information of particular NPOs suspected of abuse for TF during the course of an investigation. Although a small number relative to the total number of NPOs registered operate in higher-risk regions, these NPOs receive increased monitoring focus, while Japan's overall TF risk is considered low. In light of several steps taken to commence risk-based monitoring, these deficiencies are considered minor.

Therefore, Recommendation 8 is re-rated as Largely Compliant.

Recommendation 12

	Year	Rating
MER	2021	PC
FUR1	2022	PC (not re-assessed)
FUR2	2023	PC (not re-assessed)
FUR3	2024	↑ LC

Criterion 12.1 (*Met*)

(c.12.1(a)) Japan did not fully meet the requirement of this sub-criterion at the time of the MER, as only FIs supervised by the FSA were required to put in place risk management systems to determine whether a customer or the BO is a PEP. Since the MER, Japan has issued binding policies and guidelines to clarify that other FIs not supervised by the FSA, including commodity derivatives business operators and credit card businesses, are also required to put in place systems to determine whether a customer or the BO is a foreign PEP. In addition, supervisors of certain agricultural FIs have notified firms of the need to comply with the FSA's AML/CTF guidelines in respect of PEPs. FSA's AML/CFT guidelines are considered enforceable means for non-FSA FIs through their individual supervisory sanction powers, as well as the APTCP (Arts. 15 – 17), as the guidelines are in line with the APTCP, and any violations thereof are considered violations of the APTCP (see also c.27.4 of the MER).

(c.12.1(b)) Japan did not fully meet the requirement of this sub-criterion at the time of the MER because FIs were only required to obtain approval of a “senior compliance officer” to commence, establish or continue the business relationship with a foreign PEP, however, they were not required to be part of the FIs' senior management. Since the MER, Japan has issued binding policies and guidelines for FIs to clarify the requirement to obtain approval of senior management to establish or continue business relationships with foreign PEPs.

(c.12.1(c)) Japan did not fully meet the requirement of this sub-criterion at the time of the MER as FIs were only required to conduct verification of the source of wealth and source of funds when the transactions exceeded JPY two million. Since the MER, the FSA and other FI supervisors have revised and issued binding guidance to clarify that FIs are required to conduct verification of the source of wealth and source of funds regardless of the size of the transaction.

(c.12.1(d)) Japan did not fully meet the requirement of this sub-criterion at the time of the MER as only FIs supervised by the FSA were required to conduct enhanced ongoing monitoring on relationships with foreign PEPs. Since the MER, Japan has extended this requirement to other FIs through the issuance of binding guidance, with the exception of currency exchange providers. These currency exchange providers must continuously scrutinize information verified at the time of the transaction on customers with continuous business relationships, which includes foreign PEPs.

Criterion 12.2 (*Met*)

(c.12.2(a)) Japan did not meet the requirement of this sub-criterion at the time of the MER as Japan did not recognize domestic PEPs or persons who have been entrusted with a prominent function by an international organisation as a specific category of customers. Since the MER, the FSA has clarified through binding

guidance that FIs are required to take reasonable measures to determine whether a customer is a domestic PEP or a person who has been entrusted with a prominent function by an international organisation. In addition, non-FSA supervisors have required their reporting entities to adhere to the FSA's guidelines, which are considered enforceable means for non-FSA supervisors as described under c.12.1.

(c.12.2(b)) Japan did not meet the requirement of this sub-criterion at the time of the MER as there was no requirement for FIs to adopt measures set out in 12.1 (b) – (d) when there is a higher risk business relationship with a domestic PEP, or a person entrusted with a prominent function by an international organisation. On 1 April 2024, the FSA published further revised binding guidance in the form of FAQs to require FIs to conduct enhanced due diligence when there is a higher risk business relationship with such a person and to adopt measures set out above. The FAQs are an interpretive notice of the FSA's AML/CFT Guidelines and qualified as enforceable means at the time of the MER.

Criterion 12.3 *(Met)*

Japan did not fully meet the requirement of this sub-criterion at the time of the MER as requirements of criteria 12.1 (a)-(d) applied only to family members or close associates of foreign PEPs, but the requirements did not apply to family members or close associates of domestic PEPs or persons entrusted with a prominent function by an international organisation. Since the MER, the FSA has clarified through updated FAQs published on 1 April 2024 that FIs are required to apply the relevant requirements of criteria 12.1 and 12.2 to family members or close associates not only of foreign PEPs, but also of domestic PEPs or persons who have been entrusted with a prominent function by an international organisation, with deficiencies noted above in 12.1. In addition, non-FSA supervisors have required their reporting entities to adhere to FSA's guidelines as mentioned under preceding criteria.

Criterion 12.4 *(Not met)*

As noted in the MER, there is no provision that requires FIs to take reasonable measures to determine whether the beneficiaries and/or, where required, the BO of the beneficiary of life insurance policies are PEPs. While the APTCP requires life insurance companies to conduct due diligence on the beneficiaries and, if applicable, the BO of the beneficiaries, which includes PEP-related enhanced due diligence similar to other FIs' practices, there remains no special provision related to PEP beneficiaries of life insurance policies. This criterion remains unchanged since the MER.

Weighting and conclusion: Since the MER, Japan has taken steps to address gaps in this Recommendation. FSA supervised FIs are now required to recognize domestic PEPs and persons who have been entrusted with a prominent function by an international organisation as a specific category of customers and in higher risk relationships apply the same measures as for foreign PEPs. In addition, Japan has achieved significant alignment of requirements related to PEPs for FIs supervised by FSA with those for other FIs. Finally, while there is no special PEP-related provision for beneficiaries of life insurance policies, this is considered a minor shortcoming, given the overall strength of life insurance companies' due diligence requirements, which include PEP-related due diligence.

Therefore, Recommendation. 12 is re-rated as Largely Compliant.

Recommendation 22

	Year	Rating
MER	2021	PC
FUR1	2022	PC (not re-assessed)
FUR2	2023	PC (not re-assessed)
FUR3	2024	↑ LC

Criterion 22.1 (Met)

Japan did not fully meet the requirements of this criterion at the time of the MER as deficiencies highlighted in R.10, such as a lack of clarity and gaps in the verification of any person purporting to act on behalf of the customer and in the application of CDD requirements to existing customers, were also relevant to DNFbps. Since the MER, relevant supervisors of DNFbps in Japan have developed and published binding guidelines that strengthen the application of CDD requirements to include ongoing monitoring of customers.

(c.22.1(a)) At the time of the MER, this sub-criterion was not applicable, as the relevant provisions on casino operation of the Act on Development of Specified Integrated Resort Districts (ADSIRD) had not yet been in effect, and gambling was still prohibited. Since the MER, under the framework of the ADSIRD, which came into effect in 2021, casino business operators are defined as specified business operators in the APTCP and they are subject to CDD requirements, including the obligation to conduct verification at the time of transaction when a customer engages in a transaction that exceeds 300,000 JPY /approximately 2,000 USD (APTCP, art. 2, para. 2, item 41; art. 4, para 1 and APTCP Ordinance art. 7, para 1, item 4, etc.).

(c.22.1(b)) As noted in the MER, real estate agents are required to comply with CDD requirements (APTCP, Art. 2, para. 2(xl); APTCP Order, Art. 7, para. 1, items (i)(m) and (iv)), with respect to both the purchasers and the vendors of the property.

(c.22.1(c)) As noted in the MER, dealers in precious metals and stones are required to comply with CDD requirements when they engage in any cash transaction exceeding JPY 2 million (c. USD 19,261/EUR 15,837) in relation to buying and selling of precious metals and precious stones (APTCP, Art. 2, para. 2, item (xliii); APTCP Order, Art. 7, para 1, item (vi)).

(c.22.1(d)) Japan did not fully meet the requirement of this sub-criterion at the time of the MER as legal professionals, certified public accountants and certified public tax accountants and their respective corporations were only required to conduct customer identification/verification and no other forms of CDD. All legal professionals in Japan (including legal profession corporations and registered foreign lawyers and corporations) have to be a member of the Japan Federation of Bar Associations (JFBA) to practice law (Attorneys Act, articles 30-4 and 47; Act on Special Measures concerning the Handling of Legal Services by Foreign Lawyers, articles 24, paragraph 1, 25, paragraph 1, 40, paragraph 1, 50-7, paragraph 1, 50-4, paragraph 1, and 50-13, paragraph 2).

As a result, lawyers' and legal profession corporation activities in Japan are governed by the Articles of Association of the JFBA, which include measures pertaining to the ethics of lawyers and the discipline of its members (Attorneys

Act, art. 33, para. 2, item 7). Those measures are implemented by rules or regulations (JFBA Articles of Association, article 6, paragraph 1). One of these sets of rules are the *Rules Concerning Verification of Client Identity and Retention of Records* (RVCIRR). Since the MER, Japan updated the APTCP (Art. 12), and JFBA amended the RVCIRR (in force since April 2024) to expand CDD obligations for legal professional and corporations to include verifying the purpose of conducting the transaction, the intended nature of the business relationship, and the BO. (The Rules, art. 2, RVCIRR, art. 2-2, art.2-3, art.4).

In respect of judicial scriveners, certified administrative procedure specialists, certified public accountants and audit firms, and certified public tax accountants and their respective corporations' amendments to the APTCP also expanded CDD obligations for these professions and corporations to include verifying the purpose of conducting the transaction, the intended nature of the business relationship, and the BO. (APTCP, art.4).

c.22.1(e)) As noted in the MER, postal receiving service providers, telephone receiving service providers and telephone forwarding service providers are required to comply with CDD requirements (APTCP, art.2, para. 2(xliv) and art. 4 para. 1; APTCP Order, art.7, para. 1, items (vii)).

Criterion 22.2 (*Mostly met*)

As noted in the MER, DNFBPs are required to comply with the record-keeping requirements in a similar way as financial institutions (see R.11). Deficiencies highlighted in R. 11 in relation to the provisions of the APTCP, APTCP Order and APTCP Ordinance are also relevant for DNFBPs, except for lawyers. Lawyers are required to take record-keeping measures pursuant to the provisions of the RVCIRR (APTCP, art.12): they are required to prepare client identity verification and transaction records and keep them for five years after the completion of the transactions (RVCIRR, art.5). This criterion remains unchanged from the MER.

Criterion 22.3 (*Mostly met*)

Japan did not fully meet the requirement of this criterion at the time of the MER as DNFBPs as described in c. 22.1(d) were required to comply with the PEP requirements in the same manner as FIs, thus deficiencies highlighted in R. 12 were also relevant for DNFBPs, except for lawyers. Lawyers were subject to different regulations; however, legal professionals were required to verify the identity of the customer by a strict identity verification measure with regard to a foreign PEP or family members/close associates of the foreign PEP, but there was no other specific PEP requirement as required in R.12. Since the MER, Japan has remedied many of these deficiencies, including recognizing domestic PEPs as a specific category of customer and achieving significant alignment of requirements related to PEPs across FIs regardless of supervisor, although some shortcomings remain (see R.12). Since the MER, as described in c.22.1(d), the JFBA has updated regulations to expand CDD obligations for legal professionals and other specified business operators, which specify that lawyers should account for PEPs as part of risk assessments of their clients, but the regulations do not contain a clear set of PEP requirements for lawyers in line with R.12.

Criterion 22.4 (*Mostly Met*)

Japan did not fully meet the requirement of this criterion at the time of the MER as DNFBPs were required to comply with new technologies requirements in the

same manner as FIs, but deficiencies highlighted in R. 15, such as shortcomings in applicable sanctions, preventive measures, and TFS, were also relevant for DNFBPs, except lawyers. Minor shortcomings in relation to deficiencies highlighted in R. 15 remain unchanged. In addition, there was no such requirement for legal professionals. Since the MER, the JFBA made revisions to its regulations that came into effect in April 2024 that clarify legal professionals are required to comply with new technologies requirements. (RVCIRR, article 10, item 1).

Criterion 22.5 (*Not applicable*)

As noted in the MER, DNFBPs, similarly to FIs (see R. 17 in the MER), are not allowed to rely upon a third party to fulfil CDD requirements. This criterion remains unchanged from the MER.

Weighting and conclusion: Since the MER, Japan has made significant changes to its rules and regulations to expand CDD obligations for DNFBPs and require compliance with requirements set out in R.15 for lawyers and other professionals. In addition, new guidelines for DNFBPs have bolstered the basis for application of CDD requirements. While Japan now requires lawyers to take into account PEP-related risks when assessing a client, this requirement is not fully in line with the specific requirements outlined in R.12, although this deficiency is minor given all other DNFBP sectors are required to comport to R.12 requirements. Shortcomings also remain in R.11, R.12, and R.15 that are relevant for DNFBPs, but these remaining deficiencies are minor.

Therefore, Recommendation 22 is re-rated as Largely Compliant.

Recommendation 23

	Year	Rating
MER	2021	PC
FUR1	2022	PC (not re-assessed)
FUR2	2023	PC (not re-assessed)
FUR3	2024	↑ LC

Criterion 23.1 (*Mostly met*) Japan did not fully meet the requirement of this criterion at the time of the MER as judicial scriveners, certified administrative procedures legal specialists, certified public accountants or audit firms, certified public tax accountants, their respective corporations and lawyers were not required to file STRs. In addition, while other DNFBPs were required to file STRs in the same manner as financial institutions, deficiencies highlighted in R. 20, notably the lack of an explicit requirement to report attempted transaction, were relevant.

Since the MER, the Japan Financial Intelligence Center (JAFIC) issued binding interpretative guidance in April 2024 that clarifies that, even if obliged entities refuse a transaction because of ML/TF risk, there remains an explicit requirement under the APTCP to report a STR (APTCP, art. 8).

Furthermore, amendments to the APTCP (art.8) require these specified business operators, with the exception of lawyers and judicial scriveners, to file STRs. For lawyers, their supervisor, namely the JFBA, issued new regulations which came into effect in April 2024 establishing a new mechanism in the form of a “help desk”

that enables JFBA to receive information from lawyers when a lawyer recognizes or suspects suspicious activity and to provide a response and advice to lawyers to prevent the transfer of criminal proceeds. For judicial scriveners, their supervisor, namely the Japan Federation of Shiho-shoshi's Associations (JFSA), issued similar regulations which also came into effect in April 2024. However, it is unclear whether the JFBA and JFSA are required to promptly pass on these help desk submissions and special case reports to the JAFIC.

Criterion 23.2 (*Mostly met*)

Japan did not fully meet the requirement of this criterion at the time of the MER as deficiencies highlighted in R. 18 regarding information sharing and confidentiality of information exchange, as well as lack of additional ML/TF risk management requirements were relevant to DNFBPs. In addition, there was no clear requirement for DNFBPs to implement group-wide programmes to all branches and majority-owned subsidiaries, nor to ensure that their foreign branches and majority-owned subsidiaries apply AML/CFT measures consistent with the home country. Since the MER, Japan has issued binding guidelines in 2022 (for DNFBPs except for lawyers) and 2024 (JFBA, *Risk Assessment of Money Laundering in Legal Practice*, 7th Edition, for lawyers and legal professionals) that require DNFBPs to formulate group-wide procedures and apply them across both domestic and foreign branches, subsidiaries, and other entities as part of their group. Other deficiencies identified in R. 18 remain relevant.

Criterion 23.3 (*Mostly met*)

Japan did not fully meet the requirement of this criterion at the time of the MER as lawyers and legal profession corporations were not specifically required to apply appropriate measures to transactions linked to higher risks countries. Furthermore, other DNFBPs were subject to the same obligations as FIs regarding transactions with connections to higher risk jurisdictions however, deficiencies highlighted in R. 19 were also relevant.

Since the MER, the JFBA has amended its rules to require lawyers and legal profession corporations to take into account high-risk countries, requiring appropriate measures such as strict client identity verification for countries that FATF has listed like Iran, North Korea, and Myanmar. While supervisors have also published extensive guidance on their expectation for countermeasures regarding high-risk jurisdictions as identified by the FATF, a gap remains due to no general requirements to apply countermeasures proportionate to the risks independently of any call by the FATF to do so (see also c.19.2(b) in the MER). Additionally, other supervisors have issued new guidelines between 2022-2024 to specify that DNFBPs must evaluate connections to higher risk countries as designated by the FATF.

Criterion 23.4 (*Mostly met*)

As noted in the MER, DNFBPs, except for lawyers and legal profession corporations, are under the same regime as financial institutions regarding tipping-off and confidentiality requirements (see R. 21). This criterion remains unchanged.

Weighting and conclusion: Since the MER, Japan has made major changes to its measures regarding DNFBPs, including new requirements for DNFBPs to report STRs and apply group-wide internal controls. Minor gaps in relation to deficiencies identified under R.18, 19 and 21

remain relevant. Namely, a lack of clarity whether STRs reported to supervisors by lawyers and judicial scriveners are passed on promptly to the FIU, no general requirements for DNFBS to apply countermeasures for high-risk countries other than those identified by the FATF, and no tipping off or confidentiality requirements for lawyers. These remaining deficiencies are considered minor.

Therefore, Recommendation 23 is re-rated as Largely Compliant.

Recommendation 25

	Year	Rating
MER	2021	PC
FUR1	2022	PC (not re-assessed)
FUR2	2023	Maintained at PC
FUR3	2024	↑ LC

Criterion 25.1 *(Mostly Met)*

(c.25.1(a)) Japan did not fully meet the requirement of this sub-criterion at the time of the FUR2, as there were no specific requirements for trustees of civil trusts to obtain and hold adequate, accurate, and current information on the identity of the settlor, the protector (if any), the other beneficiaries or class of beneficiaries, and any other natural person exercising ultimate effective control over the trust. The identified gaps remain.

(c.25.1(b)) Japan did not meet the requirement of this sub-criterion at the time of the FUR2, as it did not require trustees of any trust governed under its law to hold basic information on other regulated agents of, service providers to, the trust, including investment advisors or managers, accountants, and tax advisors. The identified gaps remain.

(c.25.1(c)) As noted in the FUR2, professional trustees are required to maintain this information for at least five years (Seven to ten years; see 2021 MER, c.25.1) after their involvement with the trust ceases (APTCP, art.6, para.1 and 2; APTCP Ordinance, articles 19, 20 and 21; and Trust Act art.37). This criterion remains unchanged from the MER.

Criterion 25.2 *(Mostly met)*

Japan did not fully meet the requirement of this criterion at the time of the MER, as obligations to keep CDD information up to date did not apply to persons settling and administering civil trusts. This criterion remains unchanged from the MER.

Criterion 25.3 *(Partly met)*

Japan did not meet the requirement of this criterion at the time of the FUR2, as there were no specific measures in place on trustees, of any domestic or foreign trust, to disclose their status to an FI or DNFBP when forming a business relationship or carrying out an occasional transaction above the threshold. Since the FUR2, changes to Japan's framework came into force on 1 June 2023 that address many of the identified gaps as they clarify that APTCP requirements on confirming a customer's purpose of transaction includes the case of acting as a trustee, when, but not limited to, forming a business relationship or carrying out

transaction above the threshold pursuant. There is now an explicit duty on trustees to disclose their status to FIs. (APTCP, article 4.1.2 & 3)

However, there is no similarly explicit duty on trustees to disclose their status to DNFBPs. As noted in FUR2, for transactions involving real estate and a trust, the status of trustees will be available as part of the real estate registration.

While the FSA provided a briefing to the Trust Companies Association of Japan on 18 April 2024 to explain that trust companies are required to declare to both FIs and DNFBPs that they are acting as trustee of a trust as the purpose of the transaction, this guidance is not enforceable, and it is unclear whether it will ensure that trustees disclose their status to DNFBPs.

Criterion 25.4 (*Met*)

As noted in the MER, there were no laws or enforceable means that prevent trustees from providing any information to competent authorities relating to the trust; or from providing FIs and DNFBPs, upon request, with information on the beneficial ownership and the assets of the trust to be held or managed under the terms of the business relationship. This criterion remains unchanged from the MER.

Criterion 25.5 (*Mostly met*)

As noted in the MER, Japan did not fully meet the requirement of this criterion, as there was no specific requirement to ensure that beneficial ownership information can be obtained in a timely manner, although law enforcement, FIU and supervisors have access to it. This criterion remains unchanged from the MER.

Criterion 25.6 (*Mostly met*)

(a-c) Japan did not fully meet the requirement of this criterion at the time of the MER, as there was no specific requirement or mechanism in place in Japan to support the rapid provision of information, including BO information, on trusts to foreign competent authorities. The identified gaps remain, even if measures in R.37 – R.40 apply.

Criterion 25.7 (*Mostly met*) As noted in the MER, for trust companies and businesses, trustees may be legally liable for failing to perform their duties, and there are proportionate and dissuasive sanctions for failing to comply. Japan did not fully meet the requirement of this sub-criterion at the time of the MER, as the financial sanction for noncompliance available on trustees of civil trusts is not proportionate and dissuasive and therefore not an effective deterrent. Since the MER, the legal framework remains unchanged. The identified gaps remain.

Criterion 25.8 (*Mostly met*) Japan did not fully meet the requirement of this criterion at the time of the MER, as there were no specific sanctions applicable when trusts do not grant timely access to information referred to in c.25.1 except for supervisors (see 2021 MER, c.25.8). The identified gaps remain.

Weighting and conclusion: Since the FUR2, Japan took steps to rectify some of the identified gaps. Based on changes to Japan's framework that came into effect on 1 June 2023, there is now an explicit duty on trustees to disclose their status to FIs when forming a business relationship or carrying out an occasional transaction above the threshold. However, these changes did not create a similarly explicit duty for trustees with regard to DNFBPs (other than those involved in real estate transactions). While the FSA further clarified to trustees on 18 April 2024 that trustees should disclose their status to DNFBPs, this step does not create

an enforceable obligation for trustees regarding DNFBPs under Japan's legal framework. Although some deficiencies remain, Japan has addressed the most important of the deficiencies identified in its MER, taking into account its risk and context. Trusts in Japan are a very small sector (both in terms of the numbers of trusts and the significance of the assets held in trust), furthermore the amount of movable property held in trust is less than 1% of the amount of real estate held in trust, the latter being covered under trustee's disclosure obligations. Remaining deficiencies are considered minor.

Therefore, Recommendation 25 is re-rated as Largely Compliant.

Conclusion

Overall, Japan has made progress in addressing most of the technical compliance deficiencies identified in its MER and has been upgraded on Recommendations 7, 8, 12, 22, 23 and 25.

The table below shows Japan's MER ratings and reflects the progress it has made, and any re-ratings based on this and previous FURs:

Table 1. Technical compliance ratings, October 2024

R.1	R.2	R.3	R.4	R.5
LC	LC (FUR 2022) PC	LC	LC	LC (FUR 2023) PC
R.6	R.7	R.8	R.9	R.10
LC (FUR 2023) PC	LC (FUR 2024) PC	LC (FUR 2024) PC (FUR 2023) NC	C	LC
R.11	R.12	R.13	R.14	R.15
LC	LC (FUR 2024) PC	LC	LC	LC
R.16	R.17	R.18	R.19	R.20
LC	N/A	LC	LC	LC
R.21	R.22	R.23	R.24	R.25
C	LC (FUR 2024) PC	LC (FUR 2024) PC	LC (FUR 2023) PC	LC (FUR 2024) PC
R.26	R.27	R.28	R.29	R.30
LC	LC	LC (FUR 2023) PC	C	C
R.31	R.32	R.33	R.34	R.35
LC	LC	LC	LC	LC
R.36	R.37	R.38	R.39	R.40
LC	LC	LC	LC	LC

Note: There are four possible levels of technical compliance: compliant (C), largely compliant (LC), partially compliant (PC), and non-compliant (NC).

Japan has no Recommendations rated PC. Japan will next report back on remaining deficiencies in its 5th round mutual evaluation.

Annex to the FUR

Summary of Technical Compliance –Deficiencies underlying the ratings

Recommendations	Rating	Factor(s) underlying the rating
1. Assessing risks & applying a risk-based approach	LC	<ul style="list-style-type: none"> • Deficiencies in the NRA methodology which does not enable a comprehensive overview of Japan's ML/TF risks. • It is not clear that the results of the NRA have been used as a basis for a risk-based approach at the national level and for the allocation of resources of relevant authorities. • There are technical deficiencies affecting some financial supervisors and DNFBP supervisors' risk-based approach to the supervision of AML/CFT obligations, and risk assessments and risk mitigation measures required from FIs and DNFBPs.
2. National cooperation and coordination	PC (LC 1 st FUR)	<ul style="list-style-type: none"> • It is unclear whether the mandate of the Council would fully satisfy the requirements of criterion 2.5. In particular, the Council's mandate does not clarify itself to what extent AML/CFT is a focus of the liaison meetings, chaired by the Chairman of the Personal Information Protection Commission (PIPC).
3. Money laundering offences	LC	<ul style="list-style-type: none"> • There is a minor gap in the range of offences included in the category of environmental offences. • Sanctions available to be imposed on natural or legal persons are not proportionate and dissuasive.
4. Confiscation and provisional measures	LC	<ul style="list-style-type: none"> • The minor gap in the scope of coverage of environmental offences as predicate offences affects the scope of confiscation. • There are gaps with confiscation of proceeds when criminals who have absconded, died or whose whereabouts is unknown.
5. Terrorist financing offence	PC (LC 2 nd FUR)	<ul style="list-style-type: none"> • The TF Act does not apply to self-funding.
6. Targeted financial sanctions related to terrorism & TF	PC (LC 2 nd FUR)	<ul style="list-style-type: none"> • Japan has not demonstrated that the asset-freezing obligations extend to (i) all funds or other assets that are owned or controlled by the designated person or entity; (ii) funds or other assets that are wholly or jointly owned or controlled, directly or indirectly, by designated persons or entities; (iii) funds or other assets derived from or generated from or other assets owned or controlled directly or indirectly by designated persons or entities; and (iv) funds or other assets of persons and entities acting on behalf of, or at the direction of designated persons or entities. • It is unclear whether the prohibitions under FEFTA and TAFE extend to transactions indirectly involving designated parties, including entities acting on behalf or at the direction of designated parties. • Japan does not require DNFBPs to report frozen assets or actions taken in relation to TFS.
7. Targeted financial sanctions related to proliferation	PC (LC 3 rd FUR)	<p>The following deficiencies were updated in this 3rd FUR:</p> <ul style="list-style-type: none"> • Japan has not demonstrated that the asset-freezing obligations extend to (ii) funds or other assets that are wholly or jointly owned or controlled, directly or indirectly, by designated persons or entities; (iii) funds or other assets derived from or generated from or other assets owned or controlled directly or indirectly by designated persons or entities; • Japan does not provide guidance in relation to freezing obligations under FEFTA for some FIs, such as mutual loan companies, low cost/short term insurers, trust companies, money market brokers/dealers. Japan has not provided guidance to some riskier FIs, including mutual loan companies, low cost/short term insurers, trust companies, money market brokers/dealers and others defined in the MER and other persons and entities, including DNFBPs, that may be holding funds or other assets on their obligations to respect a de-listing or unfreezing action.

Recommendations	Rating	Factor(s) underlying the rating
8. Non-profit organisations	NC (PC 2 nd FUR) (LC 3 rd FUR)	<p>The following deficiencies were updated in this 3rd FUR:</p> <ul style="list-style-type: none"> • Japan has begun reviewing measures and requires competent authorities to report the results of NPO monitoring to inform the review of adequacy of measures. However, no changes have been made to laws or regulations. Given that the review is ongoing, Japan was not able to demonstrate that feedback from relevant authorities following monitoring has fed into the review or changes of measures. • It was unclear whether there were clear policies for NPOs within the FATF definition, that are not captured within Japan's NPO legal framework and whether Japan provides outreach activities to these entities periodically. • Deficiencies identified in the flowcharts for NPO monitoring and the matrixes contained therein mean monitoring is only risk based to some extent. • It is unclear whether competent authorities had developed investigative expertise to examine NPOs suspected of abuse since the MER. • It is not clear whether non-LEAs have the powers and authority to fully access information on the administration and management of particular NPOs • Information sharing about suspected TF abuse is reliant on the Code of Criminal Procedures, and prosecutors and judicial police officers' ability to seize documents and records
9. Financial institution secrecy laws	C	<ul style="list-style-type: none"> • All criteria are met.
10. Customer due diligence	LC	<ul style="list-style-type: none"> • There is no explicit prohibition for FIs to keep anonymous accounts or accounts in obviously fictitious names. • The verification method of the identity of a person that claims to be acting on behalf of the customer is not reliable, and the exemption from verification based on the FI's own knowledge should be substantiated by the production of documented evidence of this knowledge. • The required information to identify legal arrangements is not specified. Although trust businesses and companies are subject to the APTCP and must register, there are no similar requirements for civil trusts that are not considered trust businesses or companies. There is also no requirement for trustees to declare their status to FIs. • The APTCP Order and Ordinance are not explicit that the settlor, the trustee(s) and the beneficiaries or class of beneficiaries should be identified. • There is no clear requirement for FIs either to include the beneficiary of a life insurance policy as a relevant risk factor in determining whether enhanced CDD measures are applicable, or to take enhanced measures including identifying and verifying any change in the identity of the BO of the beneficiary at the time of payout. • There is no provision for FIs that are not supervised by the JFSA to apply EDD in any situation assessed as higher risk. • FIs have some flexibility to continue to engage into the relationship or conduct the transaction, if a customer does not respond to the request for verification (CDD measures) at the time of transaction. In addition, FIs are not required to terminate the business relationship under this scenario. • There is no legal provision that permit FIs not to pursue the CDD process in cases where they form a suspicion of ML/TF and reasonably believe that performing the CDD process will tip-off the customer
11. Record keeping	LC	<ul style="list-style-type: none"> • Small transactions are exempt from the record-keeping requirements. • There is no explicit provision that CDD information and transaction records should be available swiftly to competent authorities.
12. Politically exposed persons	PC (LC 3 rd FUR)	<p>The following deficiencies were updated in this 3rd FUR:</p> <ul style="list-style-type: none"> • There is no clear provision requiring FIs to determine if the beneficiaries and/or the BO of beneficiary of life insurance policies are PEPs
13. Correspondent banking	LC	<ul style="list-style-type: none"> • For FIs entering cross-border correspondent banking relationships, the requirement is not specific enough regarding the need to determine if the respondent has been subject to a ML/TF investigation or regulatory action. • There is no provision to control services for "payable-through accounts (PTA)" under Japanese legislation.
14. Money or value transfer services	LC	<ul style="list-style-type: none"> • Japanese MVTs providers are not specifically required to include their agents in their AML/CFT programmes and monitor them for compliance with these programmes.

Recommendations	Rating	Factor(s) underlying the rating
15. New technologies	LC	<ul style="list-style-type: none"> • FIs that are not supervised by JFSA are not required to analyze and evaluate ML/TF risks before offering new products and services, or to conduct transactions using new technologies or those with new characteristics. • The deficiencies with respect to the understanding, assessment and mitigation of AML/CFT risks identified in R.1 carry through to c.15.3 regarding VA/VASPs. • There is a scope deficiency in the Japanese definition of VASPs, with regard to iii) and iv) of the FATF definition. • There are no legal or regulatory measures to prevent criminals or their associates from holding, or being the BO of, a significant or controlling interest of a VCEP. • A person who provides VC exchange services without obtaining registration is not subject to appropriate pecuniary sanctions. • The deficiencies highlighted in the risk-based approach to JFSA supervision (c. 26. 4 to 6) are also relevant for VCEPs. • The minor deficiencies identified in R.35 apply to VCEPs. • The analysis of R.9 to 21, including the deficiencies identified, applies to VCEPs. • The shortcomings identified in the TFS for TF and PF are also relevant for VCEPs. • It is not clear if the JFSA has a legal basis for exchanging information with foreign counterparts regardless of the supervisors' nature or status and differences in the nomenclature or status of foreign VASPs.
16. Wire transfers	LC	<ul style="list-style-type: none"> • FIs are not required to acquire originator and beneficiary information below the threshold of JPY 100 000 (EUR 792/USD 963) • There is no clear provision that prohibits the ordering FI to execute the wire transfer if it does not comply with the requirements specified at c.16.1-c.16.7. • There is no special requirement on intermediary FIs as specified under the FATF Methodology c.16.12. • Beneficiary FIs are not obliged to take reasonable measures to specifically identify cross-border wire transfers that lack required originator information or required beneficiary information. • Beneficiary FIs are not required to take actions specified under the FATF Methodology c. 16.15, although there is a general requirement. • There is no specific requirement applicable in cases where MVTs providers control both the ordering and the beneficiary side of a wire transfer.
17. Reliance on third parties	N/A	
18. Internal controls and foreign branches and subsidiaries	LC	<ul style="list-style-type: none"> • FIs senior compliance official responsible for internal compliance program is not necessarily at the senior management level. • Financial groups are not specifically required to share account information among all branches and majority-owned subsidiaries or implement group-wide measures to safeguard confidentiality and use of information exchanged. • There is no specific requirement that financial groups should apply appropriate additional measures to manage the ML/TF risks besides informing the responsible supervisory authorities.
19. Higher-risk countries	LC	<ul style="list-style-type: none"> • FIs not under the supervision of JFSA are not specifically required to apply commensurate risk mitigating measures including EDD to transactions linked to countries for which this is called for by the FATF. • There is no express link made between higher risk countries identified by Japan and jurisdictions designated as higher risk by the FATF, and with the obligation to apply countermeasures when called upon to do so by the FATF. • There is no general requirement for Japan to apply countermeasures for any country for which this is not called for by FATF.
20. Reporting of suspicious transaction	LC	<ul style="list-style-type: none"> • A requirement to report attempted transaction is not explicitly covered. • The scope of the STR reporting obligation is affected by a minor gap in the predicate offence category of environmental offences
21. Tipping-off and confidentiality	C	<ul style="list-style-type: none"> • All criteria are met.
22. DNFBPs: Customer due diligence	PC (LC 3 rd FUR)	<p>The following deficiencies were updated in this 3rd FUR:</p> <ul style="list-style-type: none"> • Deficiencies highlighted in R.10, 11, 12 and 15 in relation to the provisions of the APTCP, APTCP Order and APTCP Ordinance are also relevant for DNFBPs.
23. DNFBPs: Other measures	PC (LC 3 rd FUR)	<p>The following deficiencies were updated in this 3rd FUR:</p> <ul style="list-style-type: none"> • Deficiencies highlighted in R. 18, 19 and 20 are relevant for DNFBPs.

Recommendations	Rating	Factor(s) underlying the rating
		<ul style="list-style-type: none"> It is unclear whether STRs filed to respective supervisors by Judicial scriveners/corporations and lawyers are passed on promptly to the FIU. Lawyers are not specifically required to apply appropriate measures to transactions linked to higher risks countries.
24. Transparency and beneficial ownership of legal persons	PC (LC 2 nd FUR)	<ul style="list-style-type: none"> Japan has not fully assessed the ML/TF risks associated with all types of legal person created in the country. The company registry does not record lists of company directors and this information is not publicly available in the registry. It is not clear whether the information kept in the register of shareholders at the company head office of a stock company includes information on the nature of the voting rights associated with the shareholding. There is no requirement to maintain shareholder, member and councilor information for legal persons in the country. There are gaps in the mechanisms used by Japan (existing information via FIs and some DNFBPs, notarial checks, lists of shareholders and BO of legal persons list system) to ensure that information on beneficial ownership of a legal person is available to law enforcement in a timely manner. It is not clear whether competent authorities, and in particular law enforcement authorities, can obtain basic and beneficial ownership information in a timely manner, with the exception of the basic information stored in the company registry. Although the issuance of bearer shares was prohibited in 1990, while it is unlikely that bearer shares are still in circulation, no specific mechanisms have been put in place in line with R.24 to prohibit any bearer shares in circulation or ensure that they are not misused. There are limited sanctions available for legal persons should that fail to comply with their requirements. The rapid provision of information on basic and beneficial ownership for international co-cooperation is limited by the breadth and accuracy of information available in Japan.
25. Transparency and beneficial ownership of legal arrangements	PC (LC 3 rd FUR)	<p>The following deficiencies were updated in this 3rd FUR:</p> <ul style="list-style-type: none"> There are no specific requirements for trustees of civil trusts to obtain and hold adequate, accurate, and current information on the identity of the settlor, the protector (if any), the other beneficiaries or class of beneficiaries, and any other natural person exercising ultimate effective control over the trust. Japan does not require trustees of any trust governed under its law to hold basic information on other regulated agents of, service providers to, the trust, including investment advisors or managers, accountants, and tax advisors. There are no requirements to keep the information on the beneficiary and settlor up to date for persons settling and administering civil trusts. There are no specific measures placed on trustees, of any domestic or foreign trust, to disclose their status to DNFBPs when forming a business relationship or carrying out an occasional transaction above the threshold. There are no specific requirements to ensure that information on the basic and beneficial owner(s) of trusts held by relevant parties can be accessed in a timely manner. There is no specific requirement or mechanism in place in Japan to support the rapid provision of information, including BO information, on trusts to foreign competent authorities. There are only fines available to trustees of civil trusts that fail to meet their obligations, which are not proportionate or dissuasive. There are no sanctions available for failing to grant competent authorities timely accessing to information on trusts under 25.1 apart from in the case when a trust company or business fails to provide supervisors with a requested report or material.
26. Regulation and supervision of financial institutions	LC	<ul style="list-style-type: none"> Financial leasing companies and currency exchange operators are not required to be registered nor licensed, and the requirements to prevent criminals or their associates from holding a significant or controlling interest or holding a management function do not apply to those FIs. There is no explicit requirement to apply consolidated group supervision for AML/CFT purposes to Core principles FIs. Not all financial supervisors have developed a risk-based approach to AML/CFT supervision.

Recommendations	Rating	Factor(s) underlying the rating
		<ul style="list-style-type: none"> There is no clear information available regarding how the supervisory resources are allocated for FIs that are not supervised by the JFSA, as well as for the periodical review of the ML/TF risk profile of those FIs.
27. Powers of supervisors	LC	<ul style="list-style-type: none"> The range of sanctions applicable by the JFSA does not include financial sanctions, which is a limit to its ability to impose an appropriate range of sanctions, in line with R. 35. It is unclear if other financial supervisors can impose a range of disciplinary and financial sanctions, in line with R. 35.
28. Regulation and supervision of DNFBBs	PC (LC 2 nd FUR)	<ul style="list-style-type: none"> Not all DNFBBs are required to take measures to prevent people from holding a significant or controlling interest or a management function. DNFBP supervisors have not implemented supervision on a risk-based approach.
29. Financial intelligence units	C	<ul style="list-style-type: none"> All criteria are met.
30. Responsibilities of law enforcement and investigative authorities	C	<ul style="list-style-type: none"> All criteria are met.
31. Powers of law enforcement and investigative authorities	LC	<ul style="list-style-type: none"> There is a minor gap of failing to have an express provision which could provide sufficient legal basis for the competent authorities to conduct undercover operations.
32. Cash couriers	LC	<ul style="list-style-type: none"> Competent authorities are not empowered to stop or restrain currency or BNIs in the events of a false declaration or suspicion of ML or TF.
33. Statistics	LC	<ul style="list-style-type: none"> Some authorities do not maintain statistics on STRs and on MLA. Comprehensive statistics are not available on property frozen, seized and confiscated.
34. Guidance and feedback	LC	<ul style="list-style-type: none"> Insufficient guidance has been provided to DNFBBs for the application of national AML/CFT measures.
35. Sanctions	LC	<ul style="list-style-type: none"> In relation to R.6, sanctions are not explicitly linked to FI or DNFBB's failure to apply preventive measures related to TFS for TF. In relation to R.9-23, AML/CFT supervisors do not have powers to impose direct financial sanctions to individuals or FIs and DNFBBs. It is not clear if financial supervisors other than JFSA can impose a range of disciplinary and financial sanctions for AML/CFT failures. There is no specific provision on the application of sanctions to directors and senior managers, when FI or DNFBBs are sanctioned as legal persons.
36. International instruments	LC	<ul style="list-style-type: none"> There are deficiencies in implementing measures required under the Vienna Convention and the TF Convention.
37. Mutual legal assistance	LC	<ul style="list-style-type: none"> The scope of MLA is affected by minor gaps in the predicate offence category of environmental offences. Undercover operations are not available pursuant to and MLA request. Some minor concerns remain in relation to requirements for dual criminality
38. Mutual legal assistance: freezing and confiscation	LC	<ul style="list-style-type: none"> The scope of MLA is affected by minor gaps in the predicate offence category of environmental offences. Gaps with a basis to provide assistance for non-conviction-based confiscation proceedings and related provisional measures, at a minimum in circumstances when a perpetrator is unavailable by reason of death, flight, absence, or the perpetrator is unknown
39. Extradition	LC	<ul style="list-style-type: none"> The scope of MLA is affected by minor gaps in the predicate offence category of environmental offences. No legal basis to provide for simplified extradition mechanisms.
40. Other forms of international cooperation	.LC	<ul style="list-style-type: none"> There are no specific legal provisions for the international cooperation of JBFA in its role as AML/CFT supervisor. No information is available on the secure gateways and mechanisms used by other FI supervisors than JFSA and by DNFBB supervisors. There is no process for the prioritisation or timely execution of requests for agencies others than JAFIC and Japan Customs. There is no specific requirement on competent authorities to provide feedback on request and in a timely manner to competent authorities from which they have received assistance. There is no specific provision which allow financial supervisors' exchanges of domestically available information related to or relevant for AML/CFT purposes with foreign counterparts.

Recommendations	Rating	Factor(s) underlying the rating
		<ul style="list-style-type: none">• There is no clear provision that would ensure that financial supervisors get the prior authorisation of the requested financial supervisor for any dissemination of information exchanged, or use that information for supervisory or non-supervisory purposes.• There is no specific provision on joint investigation teams with foreign authorities for NPA

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Anti-money laundering and counter-terrorist financing measures in Japan

3rd Follow-up Report & Technical Compliance Re-Rating

As a result of Japan's progress in strengthening its measures to fight money laundering and terrorist financing since the assessment of the country's framework, the FATF has re-rated the country on six Recommendations.

Follow-up report