

Strategic Policy towards Promoting AML/CFT/CPF

May 19, 2022

Adopted by the Inter-Ministerial Council for AML/CFT/CPF Policy

I. Vision for AML/CFT/CPF

Globalization of economic and financial services and the technological innovations such as the spread of virtual assets have diversified financial flows. It also facilitates cross-border transactions. Under such circumstances, money laundering, in which the origins of illegally obtained funds are concealed, the financing of terrorism and proliferation of weapons of mass destruction (hereinafter referred to as ML/TF/PF) are becoming increasingly complex and sophisticated.

If the flow of such funds remains unaddressed, illicit funds may be used to maintain and fuel future criminal activities and criminal organizations, thereby reinforcing organized crime and terrorism. In addition, promoting proliferation activities of weapons of mass destruction through financing the development, possession, and export of such weapons (hereinafter referred to as “proliferation finance”) poses a serious threat to Japan and the international community.

Therefore, based on the recognition that illicit transfers of funds cross borders and exploit gaps in weak regulations and inadequate measures, global community collaboratively implements and complies with international standards through the multilateral framework provided by the FATF, thereby aiming to the improvement of the effectiveness of anti-money laundering, countering the financing of terrorism and counter proliferation financing (hereinafter referred to as AML/CFT/CPF).

Given the world’s third largest economy and that Japan has one of the world’s most highly developed financial sectors as a global financial center, it is significantly important to strengthen AML/CFT/CPF.

In addition, Japan has been promoting measures against terrorism and organized crime, as well as border control measures, in accordance with the “Strategy to Make Japan the Safest Country in the World”.¹ It is extremely important to strengthen these efforts from the perspective of financial sector development.

With regard to TF, while terrorist acts committed by the terrorists/entities designated by the United Nations Security Council have not been confirmed in Japan to date, there have been cases in which persons who were internationally wanted for attempted bombings, for example, have repeatedly entered and exited Japan illegally. Taking into consideration the fact that the network of Islamic extremist organizations has extended to Japan, it is necessary to take necessary measures against TF.

In light of the abovementioned context of Japan, strengthening Japan’s measures against

¹ Cabinet decision on December 10, 2013

AML/CFT/CPF will not only contribute to ensuring the safety and security of the Japanese people and the sound development of economic activities, but will also be conducive to the initiative of Japan becoming an “international financial center”.

2. Background and objectives of setting national AML/CFT/CPF policy

Amid the globalization of economic and financial services and the instability in the international landscape, it is expected to further escalate the trend that illicit financial flows will be more complicated and diversified. Therefore, it is increasingly necessary that Japan also takes effective AML/CFT/CPF measures.

The Fourth Round Mutual Evaluation Report (MER) of Japan was published in August 2021. While it was assessed that Japan’s AML/CFT/CPF measures were delivering good results overall, at the same time, it was pointed out that Japan needed to prioritize efforts in certain areas, including the supervision of and preventive measures by financial institutions(FIs) and designated non-financial businesses and professions(DENFBPs), the prevention of misuse of legal persons and arrangements, and investigating and prosecuting ML and TF.

The FATF is currently reviewing its international standards for AML/CFT/CPF measures towards the fifth round of mutual evaluation starting from 2025 in order to enhance the effectiveness of the measures. Japan is required to consider efforts to revise these standards.

Considering the circumstances abovementioned, in August 2021, the Government of Japan established the “Inter-Ministerial Council for AML/CFT/CPF Policy” (hereinafter referred to as “Inter-Ministerial Council”) chaired by the National Police Agency and the Ministry of Finance in order to strongly advance the Government’s measures as a whole. The “Inter-Ministerial Council” is mandated to develop national AML/CFT/CPF policies and promote implementation of the policies while enhancing inter-agency cooperation and coordination in those comprehensive efforts.

Today, the “Inter-Ministerial Council” adopts “Strategic Policy towards Promoting AML/CFT/CPF”. The Government of Japan reaffirms the risk and context surrounding Japan as well as the policy direction of Japan’s AML/CFT/CPF measures, and thereby enhancing inter-agency cooperation and coordination to reinforce the effectiveness of AML/CFT/CPF measures.

3. Risks surrounding Japan

(1) Current Situation of domestic risks

In Japan, the National Public Safety Commission annually prepares and publishes the NRA (National Risk Assessment)-Follow-up Report. Its overview is as follows:

(i) Analysis of domestic trends and risks

(a) Contextual factors of Japan's environment

In Japan, an island country located in Northeast Asia, border controls and customs procedures are implemented at each airport and seaport to prevent terrorism and smuggling by international criminal organizations. On the economic front, Japan occupies an important position in the global economy, has a highly developed financial sector as a global financial center and serves as a leading international financial center for considerable financial transactions.

Regarding the crime situation, the total number of criminal offense cases has declined since hitting a record high in 2002. However, since 2009, elderly people's share of victims in reported criminal cases has been increasing. In recent years, the number of reported specialized fraud cases and relevant damage have remained high, with the number of cybercrime arrests following an upward trend.

Regarding the international terrorism situation, terrorist attacks have occurred everywhere in the world, including those that affected Japanese citizens and interests of Japan-related facilities. Terrorism threats to Japan have remained.

(b) Types of offenders of ML crimes

There are various money launderers, including Boryokudan, specialized fraud groups, and crime groups of foreigners in Japan.

Boryokudan are repeatedly committing crime to obtain economic gains and skillfully engaging in ML, posing great threats to Japan.

Specialized fraud groups take advantage of deposit/savings accounts, mobile phones, telephone forwarding services and other tools in a sophisticated manner for organized fraud and receive swindled money using accounts opened in fictitious or third party's names.

In crime involving foreigners, criminal proceeds are transferred to foreign countries with legal and trading systems differing from Japanese ones, making it difficult to track them. In some instances, crime groups of foreigners in Japan as instructed by crime groups in their home countries. Within each such crime group of foreigners in Japan, ML is conducted.

(c) Modus Operandi for ML

In recent years, the number of money launderers arrested in Japan has followed an upward trend. Predicate offences for ML include theft, fraud, computer fraud, and violations of the *Investment Act/Money Lending Business Act*.

(d) Risks associated with transactions, countries/regions, and customer attributes

- Transaction type

Non-face-to-face, cash and international transactions are riskier for the following reasons.

Non-face-to-face transactions make it easier for offenders to disguise their identities or impersonate other or fictitious persons through forged identity verification documents.

Cash transactions are highly liquid and anonymous, making it difficult to track criminal proceed flows unless cash handlers prepare accurate transaction records.

As transactions with foreign countries with legal and trading systems differing from Japanese ones make it more difficult to track money flows than domestic transactions, transactions with foreign countries/regions that lack appropriate AML/CFT/CPF measures and those for massive cash transfers to foreign destinations are riskier.

- Countries/Regions

Transactions related to Iran and North Korea, specified as high-risk countries/regions subjected to a Call for Action in the FATF statements, are assessed as riskier.

- Customer attributes

Transactions with antisocial organizations, such as Boryokudan and quasi-Boryokudan, as well as international terrorists, including Islamic extremists, are riskier.

Transactions with nonresidents are riskier than those with residents because the means for measures to conduct ongoing customer due diligence by specified business operators² are limited, anonymity is increased, and the money flows are more difficult to track. Transactions with foreign politically exposed persons (who are entrusted with prominent public functions by a foreign country) are also riskier, given that these persons' positions and influence have the potential to be exploited for ML/TF, that restrictions are imposed on their identify verification, and that national initiatives to tackle corruption differ by country.

Legal persons can complicate rights to and ownership of assets, allowing the beneficial owners of legal persons to impute their assets to legal persons to easily conceal their effective rights to these assets. Due to such characteristic of legal persons, it may be difficult to track money imputed to legal persons of which the beneficial owners are uncertain. Therefore, transactions with legal persons of which the beneficial owners without transparency are riskier.

Among others, non-profit organizations (NPOs³) can be abused for TF if they operate in

² Specified business operators are listed in Article 2, Paragraph 2, *Act on the Prevention of Transfer of Criminal Proceeds*.

³ Given that the FATF defines an NPO as “a legal person or arrangement or organization that primarily engages in

regions vulnerable to terrorism or their vicinity, or handle massive amounts of cash.

(ii) Analysis of risks associated to products and services

Among products and services, those handled by deposit-taking institutions, fund transfer services and virtual assets are assessed as relatively riskier. Furthermore, insurance, investment, trust services, moneylending, foreign currency exchange services, finance lease, credit card services, real estate transactions, precious metal and stone transactions, postal receiving services, telephone receiving services, telephone forwarding services, and legal and accounting services are assessed as risky. They include the following:

(a) Deposit-taking institutions/Funds transfer service providers

While deposit-taking institutions provide various products and services, such as deposit/savings accounts, deposit transactions, exchange transactions, safe-deposit boxes, bills and checks, these products and services can be exploited for ML/TF due to their characteristics. Given this point, as well as Japan's position and roles as an international financial market, the enormous size of these institutions' financial transactions and statistical data for their transactions misused for ML/TF, these institutions face relatively higher ML/TF risks than other types of businesses.

Funds transfer service providers as business operators other than deposit-taking institutions engage in exchange transactions and can become effective means for ML/TF. Given growth in the annual number of remittances and the annual amount of funds handled by these service providers and the expected expansion of their services through the rising number of foreign residents in Japan, the degree of risk that funds transfer services present in terms of misuse for ML/TF to be growing compared to other business categories.

(b) Virtual Currency Exchange Service Providers

Virtual assets users are highly anonymous. These assets can be transferred across borders instantly. Regulations on virtual assets differ by country. Given these points, it is difficult to track transfers of virtual assets abused for crime. Virtual assets transactions are globally expanding, while the environment for virtual assets is changing rapidly. Therefore, the level of risk for misuse of virtual assets for ML/TF, is relatively high in comparison to other types of business.⁴

raising or disbursing funds for purposes such as charitable, religious, cultural, educational, social or fraternal purposes, or for the carrying out of other types of 'good works,'" NPOs here refer to corporations engaging in specified non-profit activities (CESNA), public interest corporations, social welfare corporations, medical corporations, incorporated educational institutions and religious corporations.

⁴ Regarding ML/FT risk trends pertaining to virtual assets and the global implementation of and challenges for the FATF standards pertaining to virtual assets, the FATF in July 2021 published "the Second 12-Month Review of

(c) DNFBPs

The number of cases where products and services provided by “specified business operators” were misused for ML/TF is less than that of cases where those provided by deposit-taking institutions were misused. However, AML/CFT/CPF initiatives differ by business operator, indicating that some business operators might have failed to take effective AML/CFT/CPF measures. This may have an impact on the risk levels of other “specified business operators” in general.

- Real estate brokers

Real estate has high value and can be exchanged for massive amounts of cash. Usual prices plus premiums may be paid for them to easily transfer criminal proceeds. Given these points, real estate can become an effective means for ML/TF. In recent years, real estate is purchased for asset maintenance and investment purposes, indicating a risk that organized crime groups in Japan and other countries may misuse real estate transactions to change criminal proceeds into legitimate money.

- Dealers in precious metals and stones

Precious metals and stones have high property values and can be easily transported and exchanged for cash globally. Furthermore, it is difficult to track their distribution channels and locations after their transactions, indicating their high anonymity. Particularly, gold bullion is made available mainly for cash transactions. Given these points, precious metals and stones can be an effective means for ML/TF.

- Others

Also risky are postal receiving, telephone receiving, and telephone forwarding services that can be used for disguising the beneficiary of criminal proceeds.

Given that legal and accounting professionals have a high level of expertise on laws and accounting, and high social credibility, their jobs and relevant transactions can become an effective means for ML/TF. When legal and accounting professionals represent their clients to implement acts or procedures concerning buying and selling residential lots and buildings, acts or procedures concerning the establishment or merger of companies, and management or disposal of cash, deposits, securities and other assets, there is a risk that they will be misused for ML/TF.

Revised FATF Standards - Virtual Assets and VASPs” (<https://www.fatf-gafi.org/publications/fatfrecommendations/documents/second-12-month-review-virtual-assets-vasps.html>). In recent years, it has been pointed out overseas that ransomware proceeds have the potential to be abused for the financing of terrorism. In the United States, FIs have been warned that engagement with ransomware payments could be subjected to legal punishment (e.g., publications by the Department of the Treasury <https://home.treasury.gov/policy-issues/financial-sanctions/recent-actions/20201001>).

(2) Global trends

(i) Analysis of global trends

(a) International terrorism/terrorist financing

Regarding the situation of international terrorism, the Islamic State of Iraq and the Levant (ISIL) has called for terrorist attacks against European countries, the United States, and other participants in the Global Coalition to Counter ISIL. Al-Qaeda and relevant terrorist groups have also solicited attacks on Europe, the United States and others. After U.S. forces completed their withdrawal from Afghanistan in late August 2021, attention should be paid to changes in terrorism threats in and outside Afghanistan. Cyberattacks on governmental agencies and companies have occurred globally, leading to concern that cyber terrorist attacks, or electronic attacks to affect social functioning, could hit Japan.

As noted by the FATF, the advancement of social media and new payment technologies have made TF measures vulnerable.⁵ Even countries with lower risks of terrorism may still face TF risks, as funds for terrorism could also be collected and stored in them. Taking into account these aspects, it must be noted that TF risks may exist in regions other than those where terrorist organizations operate.⁶

For instance, United Nations Security Council Resolution (UNSCR) 2462 (adopted in March 2019) expressed serious concern that terrorists may abuse legitimate enterprises and NPOs for raising funds and take advantage of virtual assets and other new financial technologies to transfer funds through legitimate enterprises and NPOs.

(b) Proliferation financing

As for proliferation financing, the FATF has recommended countries to implement targeted economic sanctions (including financial sanctions) to comply with the UNSCRs on the prevention of proliferation of weapons of mass destruction and its financing.⁷ However, while the international community including Japan has cooperatively implemented economic sanctions on North Korea and Iran under such framework, it is presumed that weapons of mass destruction and related materials and technologies are transferred to them.

North Korea has launched ballistic missiles repeatedly and it has exported ballistic missiles and other weapons over decades, according to the report by the U.S. Defense Intelligence Agency.⁸

⁵ “Emerging Terrorist Financing Risks” (FATF, October 2015)

⁶ “Terrorist Financing Risk Assessment Guidance” (FATF, July 2019)

⁷ “FATF Recommendations 2012” (FATF, updated in March 2022)

⁸ “NORTH KOREA MILITARY POWER” (Defense Intelligence Agency, 2021)

A report by the Panel of Experts of the Security Council Committee established pursuant to resolution 1718⁹ points out that North Korea has conducted cyberattacks to acquire massive virtual assets and has engaged ship-to-ship transfers in a more sophisticated manner in order to evade or circumvent sanctions. Given such cases and methods of sanctions violation and evasion, it is necessary for Japan to secure the effectiveness of economic sanctions and law enforcement measures.

(c) Economic sanctions imposed on international financial transactions

Since February 2022, in response to Russia's invasion of Ukraine, the international community, led by the Group of Seven (G7) including Japan, has closely cooperated in taking various coordinated measures to impose the maximum cost on Russia. The measures include an asset freezing against Russian individuals and entities, such as President Vladimir Putin, and the European Union's exclusion of Russian banks from the Society for Worldwide Interbank Financial Telecommunication (SWIFT). In particular, with respect to the effectiveness of economic sanctions, sanction evasion exploiting virtual asset transactions have become a global challenge.

In response to the G7 Leaders' Statement of March 2022,¹⁰ the Russian Elites, Proxies and Oligarchs Task Force was launched to promote cooperation and information sharing between national authorities. The G7 and other countries, including Japan, made a commitment to unite in working to maintain the effectiveness of sanctions. In this regard, countries have reviewed relevant systems and obligations.

(d) Environmental crime

The FATF published a report titled "Money Laundering and Illegal Wildlife Trade"¹¹ in June 2020. The report presents concerns that illegal wildlife trade represents transnational organized crime generating billions of dollars in criminal proceeds annually, aggravates corruption, poses threats to biodiversity, and significantly affects public health and the economy.

The "G7 2030 Nature Compact",¹² adopted at the June 2021 G7 Summit, also described illegal wildlife trade as serious organized crime and called for enhancing initiatives against ML. In a report published in July 2021,¹³ the FATF gives priority to tackling ML from

⁹ Report by the Panel of Experts of the United Nations Security Council Committee on DPRK Sanctions (United Nations, April 1, 2022)

¹⁰ G7 Leaders' Statement on the Ukraine situation
(English) <https://www.mofa.go.jp/mofaj/files/100315215.pdf> (Source: Ministry of Foreign Affairs)
(Tentative translation) <https://www.mofa.go.jp/mofaj/files/100315216.pdf> (Source: Ministry of Foreign Affairs)

¹¹ "Money Laundering and the Illegal Wildlife Trade" (FATF, June 2020)

¹² The 2030 Nature Compact was adopted at the G7 Cornwall Summit held on June 11-13, 2021.

¹³ "Money Laundering from Environmental Crime" (FATF, July 2021)

environmental crime, including illegal trade in wildlife, forest resources and minerals, and malicious waste trafficking, and recommends that even countries with no domestic natural resources industries consider ML risks.¹⁴

(ii) Global challenges in addressing ML/TF/PF issues

(a) Growing use of new technologies

The environment surrounding virtual assets has been changing rapidly. The FATF revised its Recommendation 15 in October 2018, obliging each jurisdiction to introduce AML/CFT/CPF regulations and licensing or registration for virtual assets service providers. In line with the revision, in June 2019, the FATF adopted an Interpretive Note to the Recommendation 15 and updated the guidance on virtual assets published in June 2015, clarifying the risk-based approach to virtual assets activities.

Additionally, in October 2021, the FATF published “Updated Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers”¹⁵ to provide jurisdiction and relevant industries with further guidance on the implementation of FATF standards. This Guidance provides guidance on so-called stablecoins, P2P transactions, decentralized finance (DeFi), and non-fungible tokens (NFT), and shows its intention to continue monitoring the market development including the abovementioned technologies and its ML/TF risks.

Stablecoins, in particular, have the potential to be adopted globally. In this light, the Financial Stability Board (FSB) published high-level recommendations on the regulation, supervision and oversight of global stablecoin arrangements, and widely adopted stablecoins with a potential reach and use across multiple jurisdictions.¹⁶ In a G20 report in 2020, the FATF clarified that stablecoins are subject to FATF standards either as virtual assets or traditional financial assets. The Updated Guidance published in October 2021 calls for each jurisdiction to enhance initiatives concerning stablecoins, which include responding to relevant risks before the launch of services.

(b) Prevention of misuse of legal persons

Given the risk of ML/TF/PF taking advantage of companies and business structures, the FATF recommendations have called for the accurate identification of the beneficial ownership (BO) of legal persons. In recent years, the FATF has been considering a mechanism for each

¹⁴ As for environmental crime, Japan has promoted the crackdown, focusing on illegal industrial waste dumping and malicious incidents involving Boryokudan.

¹⁵ “Updated Guidance for a Risk-Based Approach to Virtual Assets and Virtual Asset Service Providers” (FATF, October 2021)

¹⁶ “Regulation, Supervision and Oversight of ‘Global Stablecoin’ Arrangements” (The Financial Stability Board, October 13, 2020)

country to manage the BO information of legal persons in a centralized manner to enhance the effectiveness of AML/CFT/CPF measures, mitigate risks with untransparent legal persons, and prevent corruption and tax evasion.

In this respect, the G20 finance ministers and central bank governors in their statement in October 2021 called for enhancing the FATF recommendations to improve the transparency of BO of legal persons. In response, the FATF at its plenary meeting in March 2022 updated recommendations on the prevention of misuse of legal persons.

(c) Strengthening capacity of asset recovery

In enhancing AML/CFT/CPF measures, it is an important challenge to confiscate criminal proceeds or criminals' assets dispersed through ML/TF/PF and return them to countries from which the assets have fled or victims (so-called asset recovery). As the FATF fourth round of mutual evaluation revealed that many countries have challenges in conducting effective asset recovery, international cooperation and other measures are under consideration to improve the effectiveness of asset recovery.

4. Strategic priority to be undertaken in an overarching manner

As stated above in the previous sub-paragraph, factors to be taken into account in contemplating AML/CFT/CPF measures have been expanded and spread, such as widespread use of new technologies and development of international discussions in conjunction with domestic risk and context.

The Government will promote individual efforts building upon the following four pillars.

(1) Full implementation of risk-based approach

In the new FATF 40 Recommendations (released in February 2012) and the G8 Action Plan Principles (adopted at the G8 Lough Erne Summit in June 2013), it is required that each country undertakes national risk assessment and applies a risk-based approach by taking actions commensurate with identified AML/CFT/CPF risks.

In light of this, Japan launched a national risk assessment in 2014 and, in public-private cooperation, Japan has tackled AML/CFT/CPF.

Domestic and global risk and context has been drastically changed in recent years. The Government will analyze and identify risks changing in a timely and adequate manner, and building upon its risk understanding, will continue to strengthen Japan's AML/CFT/CPF efforts including those taken by FIs, virtual assets service providers, real estate brokers, dealers in precious metals and stones, and other entities.

In addition, to increase the effectiveness of CPF measures, the Government will identify and

assess the risks of a potential breach, non-implementation or evasion of the targeted financial sanctions obligations pursuant to relevant UNSCRs, etc. and will establish the process of taking measures to mitigate the identified risks.

(2) Swift responses to new technologies

As domestic and international economic and financial activities change dramatically along with the development of new technologies such as virtual assets, it is required to expeditiously address ML/TF/PF risks that could emerge by such social changes. In this regard, it is important for Japan to enhance the effectiveness and efficiency of measures taken by authorities, FIs, while taking advantage of progress in digital transformation and paying attention to the new risks.

Japan has proactively participated in the FATF's initiatives by leading the efforts of the FATF's Virtual Asset Contact Group as a co-chair and been taking leadership in promoting the global implementation of the FATF Standards on virtual assets, identifying challenges pertaining to AML/CFT/CPF regarding virtual assets and proposing actions to respond to these challenges through dialogues with other authorities and the private sector. Japan will adequately identify emerging risks and address them by strengthening such efforts. In the meantime, Japan will also continue the efforts to improve the effectiveness and efficiency of AML/CFT/CPF measures with the appropriate use of new technologies.

(3) Strengthening international cooperation and coordination

As crimes become globalized and complicated, and tensions in the international situation grow, it is imperative for Japan to enhance cooperation with other countries and international organizations to improve the effectiveness of implementation of Japan's AML/CFT/CPF policies. Through cooperation with relevant foreign government agencies and international organizations such as the International Criminal Police Organization (ICPO) and the United Nations Office on Drugs and Crime (UNODC), swift and appropriate responses to the requests of Mutual Legal Assistance, international cooperation between supervisory authorities, proactive participation in the FATF's discussions, and support for FATF-Style Regional Bodies (FSRB), Japan will continue to reinforce global actions against ML/TF/PF.

Under the ever-changing international situation, it is important for Japan to closely cooperate with the international community such as the G7 and thereby avoid becoming a loophole in global AML/CFT/CPF. Japan will thus join the efforts to better implement global AML/CFT/CPF measures and will also take necessary actions for Japan.

(4) Enhancing inter-agency coordination and public-private partnership

In order to promote the three strategies from (1) to (3) above effectively, it is important to raise

awareness and cooperation among relevant government authorities and the private sector. It is also important to gain public understanding on concrete initiatives.

The Government will exploit the “Inter-Ministerial Council” to strongly promote AML/CFT/CPF measures.

In Japan, there are industry associations for most of the sectors that operate businesses and services posing ML/TF risks. These industry associations support business operators and formulate self-regulatory provisions. The initiatives of industry associations create synergy effects with the initiatives taken by the Government and there are many cases where the effectiveness of AML/CFT/CPF measures are improved as a result of such synergy. In light of this, the Government will enhance cooperation with industry associations and proactively undertake outreach and public relations activities to relevant business operators and citizens to reinforce the effectiveness of AML/CFT/CPF measures.

5. Action items

(1) Reinforcing risk analysis on ML/TF/PF

To take effective AML/CFT/CPF measures according to risks, the Government must identify and analyze ML/TF risks surrounding the nation in consideration of domestic and foreign economic and social situations, new technology trends, and international discussions at the FATF, G7, G20, and other forums.

Although the National Public Safety Commission has been trying to enhance its annual NRA-Follow-up Report in consideration of changes in domestic and foreign situations, the Government will promote further information sharing and cooperation between relevant government agencies through the “Inter-Ministerial Council”, exchange information with industry associations and private business operators, and widely collect and comprehensively analyze information on suspicious transactions reported by specified business operators, on ML cases in Japan, and on overseas analyses to further deepen ML/TF risk analysis.

In parallel to ML/TF risk assessment, the Government will conduct PF risk assessment to improve the effectiveness of the asset freezing measures.

(2) Enhancing preventive measures by financial institutions¹⁷/virtual currency exchange service providers and supervision

The NRA-Follow-up Report assesses that instruments and services handled by deposit-taking

¹⁷ The FATF defines financial institutions as banks, life and non-life insurance companies, financial instruments business operators, moneylenders, money or value transfer services providers, virtual assets service providers, currency exchange operators, finance lease companies, credit card companies, trust companies, etc.

institutions, funds transfer services handled by funds transfer services providers and virtual assets handled by virtual assets service providers have relatively higher risks than instruments and services provided by other FIs, and that services and instruments provided by other types of FIs have some risks. Depending on the degree of risks, FIs are required to implement not only the statutory measures but also the one to enhance AML/CFT/CPF under the risk-based approach and take risk mitigation measures based on the risks identified.

Competent authorities will conduct an outreach to FIs to promote their understanding of AML/CFT/CPF measures required under guidelines formulated by relevant government agencies and will enhance staffing allocation for developing a management structure for strengthening risk-based inspection and supervision and promote cooperation between relevant government agencies in charge of “specific business operators” in order to allow FIs to develop an appropriate AML/CFT/CPF management framework by the end of March 2024.

Competent authorities will also conduct government publicity activities for users of FIs to promote their understanding about the significance and necessity of AML/CFT/CPF measures and their cooperation in AML/CFT/CPF initiatives at FIs. Given that various means to provide services taking advantage of digital technologies have been produced, competent authorities will consider introducing the AML/CFT/CPF framework for new business types required to be subject to AML/CFT/CPF measures, the so-called travel rule which means virtual asset service providers’ obligation to provide notifications on virtual asset transfers, and other appropriate regulations contributing to the mitigation of ML/TF risks in Japan.

(3) Enhancing preventive measures by DNFBPs and supervision

DNFBPs handle instruments and services assessed as risky in the NRA-Follow-up Report, including highly risky types of transactions and transactions with highly risky customers. Therefore, measures must be taken for DNFBPs in accordance with the degree of risks, as is the case with FIs, etc.

To this end, measures required to subject all types of DNFBPs to the customer due diligence requirement will be considered and implemented. Competent authorities will develop guidelines on DNFBPs’ AML/CFT/CPF measures, make an outreach to them, implement risk-based monitoring on them and enhance arrangements for these actions. In that course, they will cooperate with relevant industry associations and help each business operator tackle necessary measures.

(4) Prevention of misuse of NPOs

Given growing international concern on NPO abuse, the Government will appropriately assess the risk of NPO abuse for TF and conduct risk-based monitoring to prevent NPOs from being abused for TF. To secure the soundness of NPO activities in riskier regions, the Government will develop best practices for the risk of TF and CFT measures, and undertake outreach.

(5) Enhancing transparency of legal persons and legal arrangements

At recent G7/G20 and other international discussions, a strong sense of crisis has been demonstrated about the fact that dubious legal persons have been used not only for ML/TF/PF purposes but also for corruption and other illegal acts. Therefore, each country has been urged to develop systems for finding and managing information about the BO of legal persons to improve the transparency of legal persons and prevent their misuse.

Initiatives to find and manage BO information are important in helping Japan to realize an open international financial center and develop the business environment meeting international standards.

Recognizing this point, the Government will promote the use of “the beneficial ownership of legal persons list system” launched in January 2022 and consider developing a framework for finding the beneficial owners of legal persons centrally, continuously, and accurately.

The Government will also consider and implement measures to make BO information available and ensure its accuracy in relation to civil trusts and foreign trusts, in particular trusts that are not created or administered by trust companies.

(6) Strengthening law enforcement actions

“The Strategy to Make Japan the Safest Country in the World” calls for using the *Act on Punishment of Organized Crimes and Control of Proceeds of Crime*, the *Act Concerning Special Provisions for the Narcotics and Psychotropics Control Act*, etc. and *Other Matters for the Prevention of Activities Encouraging Illicit Conduct and Other Activities Involving Controlled Substances through International Cooperation*, and other relevant laws to accurately impose punishments for ML in order to thoroughly forfeit drug trafficking and other criminal proceeds, and prevent criminal proceeds from being used for maintaining and expanding terrorist and other criminal organizations.

Given the risks in Japan, it is important to counter transfers of criminal proceeds involving Boryokudan. The Government will find out Boryokudans’ moneymaking operations and promote crackdowns on Boryokudan members’ illegal acts accompanying moneymaking operations for a wide range of crime types. In particular, the Government will crack down on specialized fraud recognized as an important source of funds for Boryokudan.

Given the trend of ML by international crime groups and foreign visitors to Japan, the Government will promote AML/CFT/CPF measures paying attention to external transactions. Japanese and foreign relevant authorities will closely cooperate in strict surveillance of illegal drug trafficking and smuggling.

While no Japanese citizens or residents in Japan have been identified among those subjected to asset freezing and other measures in response to UNSCRs regarding TF, considering the risk of

fundraising in Japan to be transferred overseas, the Government will accurately find out risks regarding TF. Law enforcement agencies will cooperate with relevant organizations to conduct effective investigations.

Furthermore, the Government will promote the confiscation of criminal proceeds and the recovery of assets, and it will consider strengthening the statutory penalties on ML, based on recommendations by the Legislative Council of the Ministry of Justice.

(7) Strengthening implementation of economic sanctions

The international community must work together to steadily implement UNSCRs to prevent proliferation of weapons of mass destruction and terrorist activities. In order to thoroughly implement UNSCRs and protect the international financial system, the Government will further enhance the framework for cooperation among relevant ministries and agencies in asset freezing measures against those engaged in terrorism and proliferation of weapons of mass destruction, to impose economic sanctions in a timely manner, or within 24 hours.

The Government will also enhance the implementation of measures based on UNSCRs, clarify the scope of asset freezing measures, and explore and implement necessary legislative measures.

Taking into account the international situation regarding Ukraine since February 2022, in order to further enhance the effectiveness of asset freezing measures, the Government amended¹⁸ the *Foreign Exchange and Foreign Trade Act* in April 2022 that imposes screening measures regarding asset freezing on virtual asset service providers to further strengthen the effectiveness of asset freezing measures. The Government will explore measures to further enhance the effectiveness of Japan's economic sanctions, including asset freezing measures as requested by UNSCRs, and will take necessary actions.

(8) Constantly reviewing the policy in response to changes around Japan and the World

As the domestic and foreign ML/TF/PF situations change from hour to hour, Japan is required to cooperate with the international community to respond sensitively to such changes. Therefore, the Government will update this strategic policy as necessary in response to risk assessment changes.

The Declaration of the Ministers of the Financial Action Task Force adopted at the FATF Ministerial Meeting in April 2022 cited enhancing BO transparency, increasing capabilities to recover criminal assets, and leveraging digital transformation¹⁹ as priority measures to tackle

¹⁸ The bill to partially amend the Foreign Exchange and Foreign Trade Act was enacted.

¹⁹ Regarding digital transformation, the FATF ministers' declaration included responses to risks of ransomware and other cybercrime means, and new financial means, such as virtual assets, the secured global implementation of FATF standards regarding virtual assets and the utilization by the private sector and authorities of innovative technologies gained through progress in digitalization.

strategically in order to globally enhance the effectiveness of AML/CFT/CPF measures. The Government will quickly respond to such arguments and consider and implement necessary measures, such as the enhancement of authoritative arrangements to prevent regulatory loopholes from being created in Japan.

6. Closing

As the situation surrounding Japan changes from moment to moment, AML/CFT/CPF measures required globally are evolved continuously.

In order for Japan to strengthen AML/CFT/CPF measures in response to such changes and evolving international responsibilities, stakeholders need to substantially understand relevant risks and take targeted measures in light of the risks.

Under the “Inter-Ministerial Council”, Japan will speedily enhance its measures in light of the changes of domestic and foreign situations.

As for the actions cited in the National AML/CFT/CPF Action Plan published on August 30, 2021, relevant government agencies have been cooperating and promoting initiatives including legislative work conducted by the “Office for Legislative Responses to the FATF Recommendations” within the Cabinet Secretariat.

Public understanding and public-private partnership are indispensable for enhancing the effectiveness of AML/CFT/CPF measures. To this end, while continuing proactive efforts to raise public understanding, the Government will advance AML/CFT/CPF measures combined with the contributions by private sectors.

[Appendix: National AML/CFT/CPF Action Plan \(published on August 30, 2021\)](#)