

[Provisional Translation]

The original text of the Guidelines has been prepared in Japanese, and this English translation is only provisional. The translation is to be used solely as reference material to aid the understanding of the Guidelines and is subject to future changes.

Foreign Exchange Inspection Guidelines

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Foreign Exchange Inspection Guidelines
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Foreign Exchange Inspection Guidelines

Chapter 1. Outline of the Foreign Exchange Inspection Guidelines

1. Background and purpose of the formulation of the Foreign Exchange Inspection Guidelines

The Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949; hereinafter referred to as the "Foreign Exchange Act") is based on the freedom of foreign transactions. However, as an exception to "freedom," that is, as a case of conducting the minimum necessary control or coordination of foreign transactions, the competent minister (the Minister of Finance or the Minister of Economy, Trade and Industry) may impose required economic sanctions when the minister "deems necessary for the sincere fulfillment of obligations under international agreements," when the minister "deems particularly necessary to enable Japan to contribute to international efforts to achieve international peace," or when "a cabinet decision has been made to take countermeasures as being particularly necessary in order to maintain peace and security in Japan." Meanwhile, currently imposed economic sanctions include asset freezes against organizations and senior officials of and other persons related to the former Iraqi administration, persons related to the Taliban, terrorists, persons involved in North Korea's program for the development of missiles and weapons of mass destruction, and persons involved in Iran's nuclear activities.

Since the simultaneous terrorist attacks on the United States in September 2001, reinforcement of measures against terrorist financing has been one of the important issues for the global community. Against such a backdrop, foreign exchange inspections have been implemented based on Article 68, paragraph (1) of the Foreign Exchange Act and Article 16, paragraph (1) of the Act on Prevention of Transfer of Criminal Proceeds (Act No. 22 of 2007; hereinafter referred to as the "Criminal Proceeds Act") to check the status of compliance with the obligations under the Foreign Exchange Act and its regulations, and the Criminal Proceeds Act and its regulations (hereinafter referred to as the "Foreign Exchange Act and its regulations, etc.") imposed on a bank and other financial institutions, from the viewpoint of ensuring the effectiveness of these measures, including asset freezes, that are carried out under international cooperation. Meanwhile, the Foreign Exchange Inspection Manual (hereinafter referred to as the "Inspection Manual") was developed and published in January 2003 as a manual on details of the covered matters and the method, etc. of foreign exchange inspection, in an effort to clarify the evaluation standards of foreign exchange inspection and to achieve development and promotion of internal control in financial institutions, etc. for complying with relevant laws and regulations.

At the same time, as the international community faces the threat of terrorism, etc., there is a growing need to respond to changes in risks flexibly and effectively based on ever-changing international situations. On the international level as well, the Financial Action Task Force (hereinafter referred to as the "FATF") sets out in the FATF Recommendations published in 2012 that countries should introduce an approach to identify and assess risks in a timely and appropriate manner, and adopt mitigation measures commensurate with the risks (the so-called "risk-based approach"; hereinafter referred to as the "RBA"). It also states that countries should require financial institutions, etc. to identify, assess, and take effective action to mitigate their risks of money laundering and terrorist financing (hereinafter referred to as "money laundering, etc.").

The Ministry of Finance (hereinafter referred to as "the MOF"), which is responsible for planning, proposing, and implementing foreign exchange inspections, has amended the Inspection Manual as needed in line with amendments of relevant laws and regulations and implementation of new economic sanctions such as asset freezes. However, taking into account such international demand, the MOF recognized that it is essential to shift from a framework centered on rules and checklists to a more effective framework that explicitly incorporates the RBA in developing compliance management for the Foreign Exchange Act and its regulations in financial institutions, etc., in particular, in fulfilling the confirmation obligation prescribed in Article 17 of the Foreign Exchange Act. Based on this recognition, and taking into consideration that Recommendation 6 and Recommendation 7 of the FATF Recommendations require countries to provide guidance on asset freeze measures to financial institutions, etc., the MOF decided to formulate the Foreign Exchange Inspection Guidelines (hereinafter referred to as the "Guidelines") by improving and modifying the Inspection Manual. The Guidelines provide detailed descriptions of specific inspection items, including both required and expected actions, in order to urge financial institutions and persons subject to inspection to proactively formulate an appropriate compliance management framework reflecting the contents of the RBA, in particular for compliance with the Foreign Exchange Act and its regulations, etc.

2. Institutions and persons subject to the Foreign Exchange Inspection Guidelines

Institutions and persons subject to foreign exchange inspection are those that have undertaken transactions or other actions, or made or received a payment governed by the Foreign Exchange Act as prescribed in Article 68 of the Act. While the Guidelines partly describe the actions of the MOF, such as implementation of off-site monitoring, and cooperation and coordination with relevant authorities, the Guidelines mainly provide the required actions and the expected actions for the abovementioned institutions and persons subject to inspection, including banks and other financial institutions, etc. and fund transfer business operators on which the obligations referred to in Article 17 or 17-3 of the

Foreign Exchange Act for ensuring implementation of economic sanctions such as asset freezes are imposed, as well as specified business operators that engage in the currency exchange business set forth in Article 2, paragraph (2), item (xxxviii) of the Criminal Proceeds Act (hereinafter referred to as "CEOs-currency exchange operators").

Institutions and persons subject to the Guidelines (hereinafter referred to as "institutions subject to inspection ") are required to make substantial responses based on the contents of the relevant laws and regulations and the Guidelines, etc.

3. Basic concept for the implementation of foreign exchange inspections

In a foreign exchange inspection, the inspector checks whether the institution subject to inspection that has undertaken a transaction or other action or made or received a payment based on the Foreign Exchange Act and its regulations, etc. has complied with the obligations or requirements under the Foreign Exchange Act and its regulations, etc. The inspector also checks whether the institution has formulated and maintained an appropriate risk management function for responding to the obligations and requirements under the Foreign Exchange Act, etc.

In particular, the inspector checks the following matters.

- (1) Overall internal control for compliance with the Foreign Exchange Act and its regulations, etc.

Status of establishment/maintenance of the legal compliance management, status of development of internal regulations and rules for responding to obligations and requirements by the authorities, status of effectiveness in operations for response to obligations and requirements by the laws and regulations

- (2) Status of compliance with the Foreign Exchange Act and its regulations related to economic sanctions such as asset freezes

- (i) Status of acquisition of permission from the Minister of Finance under the provisions of an order based on Article 16, paragraph (1), Article 21, paragraph (1), or Article 25, paragraph (6) of the Foreign Exchange Act (including the status of compliance with the conditions attached to permission from the MOF based on Article 67, paragraph (1) of that Act)

- (ii) Status of fulfillment of the confirmation obligation based on Article 17 of the Foreign Exchange Act

- (3) Status of compliance with the provisions of the Foreign Exchange Act and its regulations related to the obligation to identify customers, etc.

Status of fulfillment of the obligation to identify customers and the obligation to prepare a record of customer identification based on Article 18, paragraphs (1) through (3), Article 18-3, Article 22-2, and Article 22-3 of the Foreign Exchange Act

(Note) With regard to the currency exchange business, the inspector is also to inspect the status of fulfillment of verification at the time of transaction, etc. based on Article 4, paragraphs (1) through (5) of the Criminal Proceeds Act, the obligation to prepare verification records, etc. based on Article 6 of the Act, and the obligation to prepare transaction records, etc. based on Article 7 of the Act (limited to those pertaining to the currency exchange business).

- (4) Status of compliance with the Foreign Exchange Act and its regulations, which define the transactions and the accounting, handled on the special international financial transactions account
Status of compliance with matters related to the transactions and the accounting, etc. handled on the special international financial transactions account under the provisions of an order based on Article 21, paragraph (4) of the Foreign Exchange Act (including the status of compliance with the conditions attached to permission or approval based on Article 67, paragraph (1) of that Act)
- (5) Status of compliance with the Criminal Proceeds Act and its regulations related to suspicious transaction reporting, etc. pertaining to the currency exchange business
Status of fulfillment of the suspicious transaction reporting obligation, etc. based on Article 8 of the Criminal Proceeds Act
- (6) Status of compliance with the Criminal Proceeds Act and its regulations related to the notification obligation pertaining to foreign exchange transactions
Status of fulfillment of the notification obligation pertaining to foreign exchange transactions based on Article 10 of the Criminal Proceeds Act
- (7) Status of fulfillment of the obligation to submit a report based on the provisions of Chapter 6-2 of the Foreign Exchange Act
- (8) Status of compliance with the Foreign Exchange Act and its regulations, etc. related to the matters set forth in (1) through (7)

The specific inspection items of the matters to be inspected are as stated in Chapter 2 "Inspection Items of Foreign Exchange Inspections." On implementing a foreign exchange inspection, for compliance with the Foreign Exchange Act and its regulations, etc. each inspection item and action described in the Guidelines will be applied to the institutions subject to inspection, depending on its business category, business scale, operations and services. Therefore, the institution is required to formulate an appropriate compliance management and risk management framework along with the Guidelines, taking into account risks it faces.

Even if an institution subject to inspection satisfies the minimum requirements for complying with the Foreign Exchange Act and its regulations, etc. at the time of an

inspection, there is no guarantee that it will maintain such status in the future given that internal and international developments may change. In order to respond to such changes in a timely and effective manner, the MOF needs to regularly and proactively implement off-site monitoring on the basis of RBA, on the institutions' internal control and risk management framework for complying with the Foreign Exchange Act and its regulations, etc., and their business operations and services. The off-site monitoring even includes institutions subject to inspection that are considered as currently having satisfied matters requested by the Guidelines and the MOF will identify problems in a preventive manner. This helps the MOF identify challenging issues and request the institutions to take measures for solving the problems based on information acquired through the off-site monitoring and the foreign exchange inspection. It also will be possible to continuously collect information about the compliance management of and identify the features of the institution, including its problems, which had previously been collected and identified through the MOF's hearings on internal audit framework and functions of the institution at the time of each foreign exchange inspection, irrespective of the interval periods between foreign exchange inspections, and the MOF will also be able to enhance its foreign exchange inspection methods in accordance with the RBA.

Based on the above, with regard to defects which have been identified in a foreign exchange inspection, the person responsible for or the section in charge of the defects in the institution inspected needs to dialogue with the inspector of the foreign exchange inspection in order to deepen understanding of the problem including its causes and possible solution of the problem. Meanwhile, the institution inspected is required to autonomously improve its compliance management for the Foreign Exchange Act and its regulations, etc. by developing necessary measures to prevent recurrence of the problem.

It should be noted that, if an institution subject to inspection violates the provisions of the Foreign Exchange Act and its regulations, etc., the MOF will make, in light of the relevant laws and regulations, a necessary administrative action, such as a rectification measure for ensuring the appropriate legal compliance management of the institution. In this process, effectiveness in the internal control of the compliance and the risk management of the institution is assessed by whether or not the institution has satisfied the requirements described in the Guidelines.

4. Coordination between relevant authorities

In order to flexibly and effectively respond to changes in risks based on the ever-changing international situations, the MOF needs to not only promote individual and specific dialogue with the institutions subject to inspection, but also coordinate with relevant authorities. In particular, deepening its coordination with the Financial Services Agency, which is in a position to supervise financial institutions, etc., is expected to improve the effectiveness and efficiency of off-site monitoring and foreign exchange

inspection through the sharing of information on international discussions and progressive efforts in various fields such as customer due diligence, risk assessment, and transaction monitoring and filtering, as well as through exchange of opinions on ideal approaches to various activities such as monitoring and outreach. It is also beneficial to exchange information with foreign authorities if necessary.

Chapter 2. Inspection Items of Foreign Exchange Inspections

1. Items concerning the internal control for compliance with the Foreign Exchange Act and its regulations, etc.

1-1 Involvement of the management team pertaining to the compliance management on the Foreign Exchange Act and its regulations, etc.

With regard to the risk management of a financial institution, etc. engaged in foreign exchange business, a comprehensive risk control is internationally required, which is not only for performing a risk management function on the business execution level, but also for recognizing the risks of the entire organization in a timely and appropriate manner, and responding to those risks from a long-term perspective, that is, making response based on a risk governance framework centering on the board of directors.

From this viewpoint, it is necessary for the financial institution to position the response to compliance with the Foreign Exchange Act, etc., including economic sanctions such as asset freezes, as one of the important issues of the business management strategy, etc., and to build the internal control for complying with the Foreign Exchange Act, etc. within the framework of the basic policy of legal compliance and compliance criteria which have been prescribed by the board of directors.

In addition, the financial institution also needs to appoint a responsible director and build a framework for coordination between related directors and departments within the framework of the risk management policy decided by the board of directors or an equivalent decision-making body (hereinafter referred to as the "board of directors, etc.") in developing administrative execution management for the compliance with the Foreign Exchange Act, etc. Also, it is necessary for the management team including the chief executive officer to pay attention to the secured compliance with the Foreign Exchange Act, etc., such as by taking the initiative to promote implementation of training concerning the Foreign Exchange Act, etc. for the relevant employees.

Furthermore, the internal audit department, which is independent from the business execution department and the risk management department, is required to verify the risk management function and the internal control regularly, and provides the results of the verification and assessment of the appropriateness and validity of business execution to the board of directors, etc.

In order to ensure high performances in the quality of the internal audits, the management team needs to drive forward the management development and keep in mind the appropriate allocation of human resources and capacity building with consideration to expertise and competency necessary for their roles so that high-quality internal audits will be implemented.

- 1-2 Development of internal provisions on matters to be complied with the related laws and regulations, etc.
- (1) The financial institution needs to position a compliance manual (which specifically provides explanations of the laws and regulations to be complied with and instructions as to what measures should be taken when illegal acts are detected) in the internal regulations covering the following legal provisions as related laws and regulations to actualize compliance.
- (i) Provisions on economic sanctions such as asset freezes
 - i. Provisions on an order based on Article 16, paragraph (1), Article 21, paragraph (1), or Article 25, paragraph (6) of the Foreign Exchange Act related to permission from the Minister of Finance
 - ii. Provisions of Article 17 of the Foreign Exchange Act related to the confirmation obligation
 - (ii) Provisions on the obligation to identify customers, etc. and verification at the time of transaction, etc.
 - i. Provisions of Article 18, paragraphs (1) through (3), Article 18-3, Article 22-2, and Article 22-3 of the Foreign Exchange Act related to the obligation to identify customers and the obligation to prepare a record of customer identification, etc.
 - ii. Provisions of Article 4, paragraphs (1) through (5), Article 6, and Article 7 of the Criminal Proceeds Act related to verification at the time of transaction, etc. (limited to those pertaining to the currency exchange business)
 - (iii) Provisions on the accounting, etc. of the special international financial transactions account
Provisions of an order based on Article 21, paragraph (4) of the Foreign Exchange Act and its regulations, that define the transactions and the accounting, etc. handled on the special international financial transactions account
 - (iv) Provisions on suspicious transaction reporting, etc.
Provisions of Article 8 of the Criminal Proceeds Act related to suspicious transaction reporting obligation, etc.
 - (v) Provisions on the notification obligation pertaining to foreign exchange transactions
Provisions of Article 10 of the Criminal Proceeds Act related to the notification obligation pertaining to foreign exchange transactions
- (2) The financial institution needs to position the provisions on the obligation to report prescribed in Chapter 6-2 of the Foreign Exchange Act and other related

provisions, in addition to the provisions mentioned in (1)(i) through (v) mentioned above, in the compliance manual.

1-3 Establishment of a monitoring and checking function for the legal compliance management

(1) Compliance program

The compliance program, which is a program for implementing specific measures to ensure and improve compliance (including the development of internal regulations, an internal control implementation program, and a training program for employees), generally includes the RBA mechanism whereby the financial institutions identify and assess risks faced in its business in a timely and appropriate manner while taking into account changes in the risk situations, and formulate and review the compliance program based on risk assessment results. Therefore, the financial institution needs to also examine matters pertaining to compliance with the Foreign Exchange Act and its regulations, etc. in the formulation and review process, and take up such matters in the compliance program if necessary.

(2) Compliance environment

(i) The financial institution needs to handle compliance and other legal problems, including compliance with the Foreign Exchange Act, etc., under a framework of risk management and of supporting the operational departments by the compliance control department or the risk management department, independent from the operational departments. Such departments are required to monitor and support the operational departments to properly improve and maintain their self-control risk management by assessing risks and risk mitigation measures.

(ii) The financial institution needs to form a proper framework for close communication, information sharing, and consultation mechanisms between the compliance control department and each operational department as well as sales offices and others in order to collect and manage the information related to the Foreign Exchange Act, etc.

(iii) The financial institution needs to cover content related to the compliance with the Foreign Exchange Act, etc. on the occasion of training or education on compliance or administrative works for employees. In addition, the compliance control department needs to provide support that contributes to the development of knowledge on compliance with the Foreign Exchange Act, etc. in the business execution department.

(iv) In the cases where a violation arises against the Foreign Exchange Act and regulations, etc.,

- i. the financial institution needs to promptly report to the relevant authorities, including the MOF, and create an adequate control system to deal with it appropriately,
- ii. If the case is a serious violation related to economic sanctions such as asset freezes and so on, the financial institution needs to provide a prompt report to all related departments, from operational departments, the sales office to other operational departments, the administrative control department, the compliance control department as well as the internal audit department. Moreover, the system also needs to provide a reporting line to the board of directors.
- iii. In addition, the financial institution needs to analyze and specify the causes of the violation, and take effective measures to prevent a recurrence of similar cases.
- iv. Moreover, the financial institution also needs to prepare its violation control system to conduct investigation of the facts, pursue the responsibility (including sanctions or punishment) of the person or persons involved, and to clarify the supervisory responsibility in the case of violation of the provisions of the Foreign Exchange Act, etc.

1-4 Positioning of internal audit management for compliance with the Foreign Exchange Act and its regulations, etc.

(1) Internal audit management

- (i) In order to regularly verify the risk management function and internal control from a standpoint independent from the business execution department, the internal audit department generally establishes a mechanism of drawing up an audit plan based on the RBA, i.e. to choose targeting departments or themes subject to the audit, and decide the scope, frequency and method. In consideration of the risk assessment results, on the implementation guidelines for internal audits, items related to compliance with Foreign Exchange Act and its regulations are set as audit items, and it is necessary to select specific items to be audited in the individual audit plans.
- (ii) The financial institution needs to provide the internal audit department with employees with expertise and competency in the foreign exchange business, in order to conduct an internal audit on foreign exchange transactions.
- (iii) The financial institution needs to make efforts to maintain and improve the quality of internal audits through internal or external assessments for its

internal audit and by providing a training program for employees engaged in internal audits to improve their expertise.

(2) Function and role of internal audit

- (i) The internal audit department needs to regularly verify the effectiveness of its entity-wide measures implemented for compliance with the Foreign Exchange Act and its regulations, etc., such as response to legal requirements or obligations on economic sanctions including restriction of payments from an asset freeze, by conducting follow-up activities or monitoring concerning audit results for the department audited, while providing recommendation for the improvement of the effectiveness of the work of the audited department, and conducting a themed audit targeting a specific field if necessary.
- (ii) The internal audit department needs to regularly report to the Board of Directors, etc., on the results of internal audit including matters related to compliance with the Foreign Exchange Act and its regulations, etc. and advice concerning improvements related to deficiencies.

1-5 Positioning of risk control for compliance with the Foreign Exchange Act and its regulations, etc.

(1) Function and role of the risk control unit

- (i) In the risk control of operational departments and sales offices (hereinafter referred to as "sales-related offices"), which serve customers, the financial institution needs to establish the risk management department, compliance control department, or administrative control department as independent from sales-related offices (hereinafter referred to as the "risk control units"). The risk control units are for reviewing the effectiveness of the risk management of the sales-related offices pertaining to compliance with the Foreign Exchange Act and its regulations, etc.
- (ii) By the results of verifying the risk management pertaining to compliance with the Foreign Exchange Act and its regulations, etc., the risk control units need to develop, maintain and improve a risk management system in the sales-related offices that could demonstrate its desired function, conducted through designing, maintaining, and improving their risk control, if necessary.
- (iii) The risk control units need to develop a management system to promptly and accurately respond to an inquiry or a request from sales-related offices on risk management pertaining to compliance with the Foreign Exchange Act and its regulations, etc.

(2) Role and function of sales-related offices

- (i) Sales-related offices need to identify risks pertaining to compliance with the Foreign Exchange Act and its regulations, etc. in daily operations and adequately implement risk mitigation measures according to the degree of the risks.
- (ii) Sales-related offices need to take sufficient measures for improving their employees' understanding and knowledge of the financial institutions' policy and their business processing applicable concerning risk management pertaining to compliance with the Foreign Exchange Act and its regulations, etc. through training for example. This enables them to identify and carry out their roles and responsibilities for compliance in their daily operations.

2. Items concerning compliance with the Foreign Exchange Act and its regulations related to economic sanctions such as asset freezes

2-1 Internal control for responding to economic sanctions such as asset freezes

(1) Appointment and role of an asset freeze administrator

The financial institution needs to appoint a director or general manager who is responsible for controlling its measures to economic sanctions such as asset freezes, as an asset freeze administrator. In addition, the financial institution needs to develop and maintain a proper compliance management system in which the asset freeze administrator coordinates among related divisions and sales offices (including divisions and branches in charge of verification at the time of transaction), such as the compliance control division, operational divisions, administrative divisions, and sales offices for adequate implementation of the economic sanction measures in compliance with the provisions of the Foreign Exchange Act and its regulations related to economic sanctions such as asset freezes, including fulfillment of the confirmation obligation (Article 17 of the Foreign Exchange Act) with the RBA.

(Note) Even if no responsible asset freeze administrator has been appointed or an financial institution has appointed the asset freeze administrator without explicit responsibility for compliance with the Foreign Exchange Act and its regulations related to economic sanctions such as asset freezes, the financial institution needs to take actions for complying with the relevant provisions of the Foreign Exchange Act and its regulations, taking into account the following points.

- (i) As a matter of duty, the financial institution needs to make it clear either a director or general manager is responsible to cover

compliance with the Foreign Exchange Act and its regulations related to economic sanctions such as asset freezes.

- (ii) The director or general manager mentioned above actually should coordinate among the relevant divisions and sales offices and implement measures to develop and maintain the compliance management for the Foreign Exchange Act and its regulations related to economic sanctions such as asset freezes.

(2) Coordination with response to risks of money laundering, etc.

The Criminal Proceeds Act requires specified business operators, including banks and other financial institutions such as fund transfer business operators, to take actions with the RBA against risks in their operations of remittances, deposits and other transactions. This includes developing and updating “risk assessment records”. Since risks related to economic sanctions such as asset freezes may be closely related to risks of money laundering, etc., it is desirable for them to ensure an organic linkage between both risks in the assessment, analysis, and management of the risks. For example, if the amount, frequency or purpose of transaction is unusual in light of the customer's past transactions, it is important to consider the information verified at the transaction in the view of money laundering, etc., when deciding whether the foreign remittance conflicts with economic sanctions such as asset freezes.

Meanwhile, even in the case of submitting to relevant authorities a suspicious transaction report required under the Criminal Proceeds Act with regard to a foreign remittance requested by a customer, the financial institution needs to discontinue or suspend the execution of remittance unless it confirms that there is no conflict with economic sanctions such as asset freezes on the remittance.

2-2 Positioning of compliance with the Foreign Exchange Act and its regulations in the legal compliance management

- (1) The financial institution needs to establish an environment for complying with the laws and regulations, etc. set forth in Chapter 2, 1-2(1) of the Guidelines "Development of internal provisions on matters to be complied with, the related laws and regulations, etc.".

Specifically, the financial institution needs to: (i) include some explanations about the contents of the provisions of the Foreign Exchange Act and its regulations related to economic sanctions such as asset freezes in its compliance manual, covering matters concerning not only the confirmation obligation based on the provisions of Article 17 but also the obligation to acquire permission from the Minister of Finance under the provisions of an order based on Article 16, paragraph (1), Article 21, paragraph (1), or Article 25, paragraph

(6) of that Act in cases where the financial institution itself implements a transaction or action; and (ii) update, in a timely manner, the explanations about the contents in its compliance manual in accordance with a revision of the regulations or restrictions based on the Foreign Exchange Act and its regulations related to economic sanctions such as asset freezes.

(Note) The financial institution needs to clearly and accurately indicate, in detail, the names of countries (regions), individuals, or groups subject to economic sanctions such as asset freezes in its internal regulations to be referred to in its compliance manual, even if the contents are not covered by the compliance manual.

- (2) The financial institution needs to conduct risk management pertaining to compliance with the Foreign Exchange Act and its regulations (in relation to economic sanctions such as asset freezes) within the framework of the risk control.

Specifically, the risk concerning compliance with the Foreign Exchange Act and its regulations needs to be positioned as one of the risks in the institution-wide risk management. In addition, in order to appropriately perform economic sanctions such as asset freezes, the financial institution needs to precisely conduct risk management, as required by its internal regulations, pertaining to compliance with the Foreign Exchange Act and its regulations in its operations. To this end, the financial institution needs to: (i) collect the latest information on economic sanctions such as asset freezes including addition, deletion or revision of the name or other specific information on designated persons and entities on economic sanctions (hereinafter referred to as a "list of those subject to economic sanctions") and disseminate the information and the list to related divisions and sales offices; (ii) have proper means of and criteria for verifying whether a transaction from/to a deposit account is with designated persons and entities subject to economic sanctions such as asset freezes; (iii) have proper means of and criteria for verifying whether the making or receiving of a payment is suspicious with designated persons and entities subject to economic sanctions such as asset freezes; and (iv) have proper criteria for judgment on and follow-up measures to a transaction or action for which it is not clear if it falls under restrictions subject to economic sanctions such as asset freezes.

2-3 Response to economic sanctions such as asset freezes

(1) Internal dissemination of information

- (i) Where any regulations or restrictions subject to economic sanctions such as asset freezes have been expanded or revised, with an addition or revision to

a designated person and entity by a public notice, the financial institution needs to immediately disseminate the content to its relevant managers and sales offices to the extent necessary for the compliance with the provisions of the Foreign Exchange Act regarding such expanded or revised regulations.

- (ii) Where any regulations or restrictions subject to economic sanctions such as asset freezes have been expanded or revised as described in (i) above, the financial institution needs to immediately update the "list of those subject to economic sanctions" containing the names, addresses, and other information. It also needs to disseminate "the list" prepared by electronic means through its information and technology network system to the sales offices and branches which are engaged in deposit transactions, remittance and other foreign exchange business services to the extent necessary for the compliance with the provisions of the Foreign Exchange Act regarding such expanded or revised regulations, so that the offices can utilize the list to check whether a relevant transaction or service is with designated persons and entities subject to economic sanctions such as asset freezes.

(Note) In the case of updating the "list of those subject to economic sanctions" utilizing information pertaining to designated persons and entities subject to economic sanctions such as asset freezes, which is provided by an external resource or provider, the financial institution needs to confirm that the information of the expansion and revision is correctly reflected in the updated "list of those subject to economic sanctions."

However, this does not apply if the accuracy of the list is assured on the basis of contracts with outsourcing partners and by proper verification corresponding to the risk, and the content and results of the verification are recorded.

The "list of those subject to economic sanctions" should be confined to one list with accurate information reflecting the contents of a public notice, including the names (including aliases) and addresses of the designated persons and entities subject to sanctions such as asset freezes. This should be searchable by electronic means. However, if the financial institution is able to have the asset freeze administrator determine whether there is any person or entity of its transactions or actions which matches any on the "list of those subject to economic sanctions", by taking into account names and attribute information such as addresses, the "list of those subject to economic sanctions" can be used by the sales offices and branches as the primary check for

matching a name and does not necessarily need to contain any attribute information such as addresses.

- (iii) The financial institution needs to strive to establish proper compliance management whereby the financial institution identifies the content of a public notice in advance from the email information delivered by the MOF prior to the issuance of the public notice and to immediately disseminate the information within the organization and to start preparing to take measures to respond to the economic sanctions such as asset freezes to the extent necessary for the compliance with the provisions of the Foreign Exchange Act regarding the relevant regulations.

(2) Management of deposit accounts

- (i) In managing deposit accounts, the financial institution needs to manage them by the country of residence of deposit account holders, while distinguishing between non-residents' deposit accounts and residents' deposit accounts, based on information of the residential status and place of residence of deposit account holders. In addition, based on identification documents, the financial institution needs to register the names of non-residents' deposit account holders and residents' deposit accounts whose name can obviously be determined to be a foreigner or foreign entity in alphabet and kana characters, (hereinafter called "foreign national names" and "non-residents' deposit accounts") into its customer management system or other information system.

(Note) i. This does not apply to registration of the deposit account holders' names in cases where there are constraints on the customer management or other information system, for example, where deposit account holders' names can be registered only in the Latin alphabet at a foreign bank. In addition, where deposit account names cannot be registered in the Latin alphabet or where the names in the Latin alphabet that are based on identification documents cannot be registered correctly due to constraints in the information system, the financial institution is not necessarily required to replace the information system, as long as the financial institution has covered all information of an entire non-residents' deposit accounts and prepared a special list that is searchable by electronic means so that the financial institution makes it possible to check that there is no relevant deposit account matched to the list of those subject to economic sanctions, when any regulations or restrictions subject to economic sanctions are expanded and revised

(for example, where designated persons and entities subject to economic sanctions such as asset freezes are added by a public notice). In this case, the financial institution needs to develop its internal regulations with regard to management procedures for updating, revising and deleting information on the special list such as the name of “foreign national names” and “non-residents’ deposit accounts” holders in a timely and appropriate manner.

- ii. With regard to deposit accounts with foreign national names for which information about the name of the holder written in the Latin alphabet has not been identified, from the perspective of ensuring assured implementation of economic sanctions such as asset freezes, the financial institution needs to make efforts to acquire the alphabetical notation, on the occasion of being in touch with the relevant deposit account holders.
- iii. This does not always apply to an account holder with a foreign national name in the case where it is difficult to identify the foreign national name written in the Latin alphabet such as where the alphabetical notation is not included in identification documents presented, and where the holder has no identification documents other than those documents.
- iv. If any payment regulations or restrictions are in force for a “Specified Jurisdiction”, the financial institution needs to establish a monitoring mechanism for collecting information of withdrawal of deposits overseas.

Moreover, as the result of monitoring, if an unusual withdrawal is detected in the “Specified Jurisdiction” or its neighboring region, the financial institution needs to also examine whether the withdrawal violates any provisions of the Foreign Exchange Act and its regulations related to economic sanctions such as asset freezes on the occasion the financial institution updates the risk assessment on the customer who made such a withdrawal.

- (ii) The financial institution needs to set up a limitation on its customer management or other information or core system so as to prevent automatic deposit to and withdrawal from the deposit accounts subject to economic sanctions such as asset freezes.
- (3) Verification of deposit accounts subject to economic sanctions such as asset freezes
- (i) Where any regulations or restrictions are expanded or revised, for example, where a designated person or entity subject to economic sanctions such as

asset freezes is added by a public notice, the financial institution needs to immediately verify that there is no deposit account under such name.

(ii) It is necessary, taking into account the following points listed in (i) to (iv) below, to match names for determining the presence or absence of the relevant deposit account, when an individual or an organization was designated as subject to economic sanctions such as asset freezes; or to verify the address and location of the deposit account holder, when payment or capital transaction regulations relating to “Specified Jurisdiction (Region)” were implemented.

i. Scope of deposit accounts to be verified or confirmed

A. The deposit accounts to be verified or confirmed should include “non-residents’ deposit accounts, etc.”

(Note)a.Payment regulations for a “Specified Jurisdiction” subject to permission from the Minister of Finance, such as in the case of the measure taken as of February 19, 2016 to ban a payment in principle to North Korea, include payments made to the deposit account of the financial institution which is located outside of the “Specified Jurisdiction”.

b.The financial institution needs to keep in mind that the scope of the verification of its deposit accounts is not limited to non-residents’ deposit accounts. Although designated persons and entities subject to economic sanctions such as asset freezes are currently limited to non-residents, it makes the financial institution verify that no deposit accounts subject to economic sanctions such as asset freezes are mixed in with the residents’ deposit accounts it manages, in order to ensure solid implementation of economic sanctions such as asset freezes. This means that the financial institution needs to also verify the deposit accounts of persons whose accurate residential statuses are not easily managed in a timely manner, such as foreign nationals.

B. The financial institution should verify or confirm dormant accounts and other deposit accounts in which the account holders have neither deposited money nor withdrawn money for a long period of time (including those pertaining to the balance of deposit accounts that have been transferred into miscellaneous income).

(Note) If it is difficult for the financial institution to verify or confirm dormant accounts and other deposit accounts as described above in case B, as the relevant information is not recorded in its information or core system for management of its deposit accounts, it is sufficient to

clearly stipulate in and take necessary actions to meet its internal regulations and procedures when a customer requests the withdrawal of money from the relevant deposit account. Specifically, the financial institution should verify that the name and the address or location of the customer has not matched those of designated persons and entities or payment regulations subject to economic sanctions such as asset freezes.

- C. In addition to the deposit account holders and the customers, the institution should conduct the same verification or confirmation on the heirs when inheritance to a deposit account occurs.
- ii. Means of verification, etc.
 - A. Where there are many deposit account names or addresses or locations of deposit account holders in the list that the institution made, it is difficult to verify or confirm all of them with a visual check. Therefore, the financial institution should conduct verification or confirmation promptly and efficiently utilizing a customer management or other information system, etc.
 - B. The financial institution should keep in mind to conduct verification or confirmation promptly and efficiently even in the case of conduct without utilizing a customer management or other information system. The financial institution should also conduct it based on the recognition as proper, prompt and rational means of verification or confirmation, taking into account the number of designated persons and entities subject to economic sanctions such as asset freezes added or revised, the number of deposit accounts, and the number of persons who engage in the verification, etc.
- iii. Criteria for verification, and its records, etc.
 - A. In verification utilizing a customer management or other information system, the financial institution should immediately conduct extensive checking of the names of designated persons and entities subject to economic sanctions such as asset freezes written in the Latin alphabet (including aliases). If a public notice includes information of the names of designated persons and entities subject to economic sanctions such as asset freezes written in kana (including aliases) or such information is published by the authorities, the financial institution should immediately conduct checking of names of foreign nationals, including the cases of difficulties to identify the name in the Latin alphabet as described in 2-3 (2) (i) (Note) iii. above, to the extent necessary for pursuing

steady implementation of economic sanctions such as asset freezes. In verifying names of deposit account holders in the Latin alphabet with the names of persons and entities who are newly designated or whose information is revised by the U.N. Security Council, etc., the financial institutions can use the results of the verification conducted at the time of soon after their release on that designation or revision if the verifications are properly conducted by the financial institutions and it is assured that no new deposit contracts are subsequently concluded with any designated persons and entities subject to economic sanctions such as asset freezes.

- B. The financial institution should conduct verification in an appropriate manner, to do it not only by searching for exact-match names but also, for example, with the first similar deposit account names extracted as a result of searching word by word and then narrowing down extensive candidates one by one. In any suspicious case that the true counterparty of the deposit contract behind a third party acting as its agent can be considered as a designated person or entity subject to economic sanctions such as asset freezes, the financial institutions should scrutinize explanations from the depositor, etc., and the documents proving causes of the transaction generated or altered a claim under a deposit contract to rationally identify the true counterparty.
- C. The financial institution should record and preserve the content and results of the verification, and results of the verification of the address or location conducted based on the criteria for checking set forth in A. and B. above. If the financial institution does not detect any deposit account which the holder's name is identical with, or similar to, the name of a person or an entity subject to economic sanctions such as asset freezes by a public notice, or any deposit account in a suspicious case as described in the provisions of B. above, it is sufficient to record such fact.

(Note) a. Where it is difficult to check names based on the aforementioned criteria for checking due to some constraints of its customer management system or other information system, the financial institution can alternatively conduct verification, based on the aforementioned criteria, with a list of extracted information of its account holders of "non-residents' deposit account, etc." so that it is made to be searchable by electronic means with a customer management or other information system.

b. Even if the financial institution conducts deposit accounts management under 2-3 (2) (i) (Note) i., it can conduct verification based on the aforementioned criteria for checking.

iv. The financial institution should take appropriate actions in cases where it detects, as a result of checking or confirmation, a deposit account for which the deposit account name is identical with, or similar to, a name of a person or an entity who has been made subject to economic sanctions such as asset freezes by a public notice, or a deposit account for which the address or location of the depositor is a “Specified Jurisdiction”.

(Note) It is necessary for the asset freeze administrator to make a final judgment on whether a depositor is an individual or a group subject to economic sanctions such as asset freeze or whether the address or location of a depositor is a “Specified Jurisdiction”, based on a record of customer identification at the time of the opening of the deposit account or other opportunity and the status of depositing and withdrawing.

In making such a judgment, where it is not clear whether the depositor falls under those subject to economic sanctions such as asset freezes, for example, where the deposit account is a dormant account, the financial institution needs to manage the deposit account separately from other deposit accounts and to determine whether the depositor falls under those subject to economic sanctions such as asset freezes by newly acquiring detailed information about the depositor through opportunities to contact the depositor, such as at the time of depositing and withdrawing.

(iii) When opening a new deposit account for a non-resident or foreign national customer, the financial institution needs to check whether the deposit account holder is subject to economic sanctions, such as asset freezes by the criteria for verification set forth in (ii) iii. above and confirm and record the results of the checking. In addition, if any payment regulations or capital transaction regulations are in force for a “Specified Jurisdiction”, the financial institution needs to confirm whether the address or location of the customer is in the “Specified Jurisdiction” or not.

2-4 Management of deposit accounts subject to economic sanctions such as asset freezes, etc.

- (1) If there is a deposit account that is subject to economic sanctions such as asset freezes, the financial institution needs to establish a proper internal control to manage deposit accounts separately from other normal deposit accounts. Furthermore, with respect to the withdrawal of such deposits, etc., it is necessary to also establish that it can only be done after the confirmation of the permission of payments under the Foreign Exchange Act by the asset freeze administrator or a person delegated by the asset freeze administrator.

(Note) The financial institution must pay close attention to the point that even where funds are not directly delivered to the other party such as the paying-in of interest on a deposit or withdrawals of account management fees or where funds are transferred to or from a heir (including an attorney thereof) due to inheritance of the deposit account, the transaction may constitute a payment or capital transaction restriction under the Foreign Exchange Act and thus it requires permission for it.

- (2) The financial institution must pay out from the deposits that fall under those subject to economic sanctions such as asset freezes after acquiring permission under the Foreign Exchange Act. In addition, if conditions are imposed on the permission, the financial institution must comply with them.
- (3) The financial institution must report to the authorities in an appropriate manner, in cases where a special report is required with regard to a deposit account that falls under those subject to economic sanctions such as asset freezes based on Article 55-8 of the Foreign Exchange Act.

2-5 Management of making or receiving a payment to or from those subject to economic sanctions such as asset freezes

- (1) The financial institution needs to establish a proper internal control to prevent making or receiving a payment to or from those subject to economic sanctions such as asset freezes, unless the asset freeze administrator or a person delegated by the administrator confirms the permission under the Foreign Exchange Act and approves to carry out the making or receiving of the payment.
- (2) The financial institution must handle making or receiving a payment to or from those subject to economic sanctions such as asset freezes after acquiring permission under the Foreign Exchange Act. In addition, the financial institution must comply with the conditions attached to the permission, if any.

(Note) In the event of inheritance of a deposit account, the financial institution should note even the paying out of a deposit to an heir

(including an attorney thereof) may be a payment or a capital transaction restriction under the Foreign Exchange Act and requires permission, so the following matters need to be confirmed before the financial institutions conduct the payout.

- (i) The heir does not fall under those subject to economic sanctions such as asset freezes.
- (ii) If any payment regulations are in force on "Specified Jurisdiction", the address of the heir should not be in the "Specified Jurisdiction".

2-6 Management of capital transactions other than deposits and service transactions

Where economic sanctions such as asset freezes include those pertaining to capital transactions other than deposits and service transactions, the financial institution needs to take appropriate actions in accordance with the items mentioned in 2-3 and 2-4 above.

2-7 Fulfillment of the confirmation obligation by banks and other financial institutions

(1) A financial institution which handles foreign remittance or fund transfer business operator (hereinafter referred to as "remittance handling financial institution") needs to fulfill the confirmation obligation based on Article 17 of the Foreign Exchange Act while paying close attention to the points listed in (i) through (vii) below where it intends to conduct an exchange transaction pertaining to making or receiving a payment to or from a customer.

(i) Identification of remittance information

- i. The remittance handling financial institution needs to capture the information necessary so that it confirms that the remittance is not a remittance to those subject to economic sanctions such as asset freezes (confirmation on whether permission under the Foreign Exchange Act is required), such as the country of destination, the beneficiary bank, the purpose of remittance (in the case of a remittance of import payment, including the name of goods, the place of origin, and the place of shipment), and the names, addresses, and locations (countries or regions) of the remitter and the receiver (hereinafter referred to as "necessary information").

(Note) A. The financial institution must pay close attention to the point that the place of payment (location of the paying bank) is not necessarily the same as the address/location of the receiver in an outgoing remittance.

- B. With regard to the address/location of a beneficiary, the financial institution needs to identify information at least about the country (region) and the name of the city or municipality in order to confirm that the remittance does not fall under the payment regulations of “Specified Jurisdiction”.
- C. In the case of judging whether the receiver of an outgoing remittance or the remitter of an incoming remittance is any of a designated person or entity subject to economic sanctions such as asset freezes based on attribute information, where the name of the beneficiary or the remitter is identical with, or similar to, the name of any designated person or entity subject to economic sanctions such as asset freezes, the financial institution needs to capture the complete address/location and other information of the receiver or remitter.
- D. It should be noted the necessary information is also utilized for verifying that an outgoing remittance is not subject to the designated economic sanctions such as asset freezes and also matters specified by the public notice item (ii) * related to the purpose of foreign investment, etc.

* Items which specify payments requiring the Finance Minister’s permission based on the first and the third clause of Article 16th, Foreign Exchange Act (Public Notice of the Ministry of Finance, No. 97)

- ii. It is indispensable to identify the necessary information in order to confirm that a remittance is not an outgoing remittance subject to economic sanctions such as asset freezes. However, if it is difficult to identify the necessary information at the time of receiving a request for a remittance from a customer via a phone line, the internet or other means of communications (hereinafter referred to as the "phone and other communications") as remittance data from the customer lacks some of the necessary information, the financial institutions may confirm by comparing the remittance data from the customer with the data captured by its proper customer due diligence system. This can be done only in cases when the financial institution appropriately conducts customer due diligence to capture the status of customers’ transactions and the content of regular remittances based on the RBA, instead of acquiring the necessary information, as well as when the financial institution explains to the customer the contents of economic sanctions such as asset freezes, and receives the customer’s declaration that it is not related to those sanctions.

When the financial institutions utilize a system that performs the automatic processing of a series of remittance procedures from receipt of the remittance data from the customer via the phone and other communications to transmission thereof, they need to establish a mechanism of automatically suspending the remittance procedures in cases where additional confirmation is required, for example, in cases where the remittance data from the customer lacks the necessary information or where there is doubt about the veracity of the necessary information obtained.

If it is found in the series of confirmation processes that the remittance falls under a case where there is doubt about the veracity of the necessary information, or a case where the remittance is made by a customer with risks who has been rated by customer due diligence, the financial institution needs to conduct the confirmation process specified in (v) below with regard to the customer.

- iii. Even in a case where the purpose of the remittances was registered by the customer in advance and the remittance was registered regarding continuous outgoing remittances to the same beneficiary, the financial institutions need to confirm with the customer on each occasion of outgoing remittance that it is not to those subject to economic sanctions such as asset freezes. In particular, when making an outgoing remittance to a “Specified Jurisdiction” for which economic sanctions such as asset freezes are imposed or to its neighboring region, the financial institutions need to carry out the confirmation specified in (v) below with the customer.

However, when the financial institutions regularly make confirmation for any change in the registered information, and recognize that there is little risk of the remittance being subject to economic sanctions such as asset freezes in light of information on the customer, the beneficiary, the beneficiary financial institution, as well as its location and the purpose of remittance, the financial institutions may capture and confirm the following information.

- A. In accepting a pre-registration of the beneficiary and the purpose of remittance from a customer, the financial institutions need to explain the content of the economic sanctions such as asset freezes being imposed, and also identify necessary information in order to confirm that the pre-registered outgoing remittance is not subject to economic sanctions such as asset freezes.

- B. According to the risk recognized in light of the information on the customer, the beneficiary, the beneficiary financial institution and its location, and the purpose of remittance, the financial institutions need to voluntarily set threshold amounts for a single transaction as well as threshold amounts for monthly and annually aggregate transactions made by one customer. Furthermore, the financial institutions should establish monitoring mechanisms to detect remittances exceeding these thresholds. When an unusual remittance is detected, the financial institutions need to capture the necessary information and carry out the confirmation specified in (v) below in cases where there is doubt about the veracity of the necessary information.
- C. When new economic sanctions such as asset freezes have been imposed, the financial institutions need to confirm whether or not their customers and the registered beneficiaries are subject to the new economic sanctions based on information on their existing customers, which has been obtained at the time of pre-registration. If the financial institutions are unable to carry out confirmation from the information captured at the time of pre-registration, the financial institutions need to carry out confirmation again by capturing the necessary information.
- iv. In cases where the financial institutions receive a certain amount of funds after letting a customer register the purpose of the remittance in advance and the customer continuously withdraws their own funds overseas for the same purpose, it should be noted the financial institutions need to confirm with the customer whether or not the transaction is subject to economic sanctions such as asset freezes on each occasion of the withdrawal of the funds overseas or receipt of additional funds. In particular, when the customer withdraws the funds in a “Specified Jurisdiction” for which economic sanctions such as asset freezes are imposed or in its neighboring region, the financial institutions need to carry out the confirmation specified in (v) below on each transaction. On the other hand, if the financial institutions establish an effective monitoring mechanism by which the place or region where the funds were withdrawn can be detected, and recognize that there is low risk of the remittance being subject to economic sanctions such as asset freezes in light of information on the customer, the region of withdrawal and the purpose of remittance, the financial institution may take the same actions as in (iii) A. through C. above.

- v. If there is doubt about the veracity of the necessary information obtained from a customer or if careful confirmation is recognized as necessary since it is considered to be at high risk of being a remittance violating economic sanctions such as asset freezes (including a suspicious case where the true remitter or the true recipient of the remittance behind a third party, etc., acts as an agent is considered as a person or an entity subject to economic sanctions such as asset freezes; hereinafter referred to as a "suspicious case in terms of the veracity of the necessary information"), the financial institutions need to request the applicant of the remittance to present supporting materials that give rational reasons for the remittance and also need to confirm legality of the transaction taking into account the legitimacy of the transaction or the relationship between the remitter and the recipient.
- (ii) Compliance with regulations and restrictions on making or receiving a payment made to or by designated persons and entities subject to economic sanctions such as asset freezes

In order to confirm that a remittance is not a payment made to or received by designated persons and entities subject to economic sanctions such as asset freezes, the financial institutions need to use an information screening system with a built-in program that automatically suspends administrative processes pertaining to the remittance (hereinafter referred to as the "automatic screening system"). The automatic screening system should be set so that the similarity should exceed a certain pre-set ratio reflecting comparison between the remittance information such as the names and addresses of the sender, beneficiary and the foreign beneficiary financial institution, and "list of those subject to economic sanctions".

In addition, the financial institutions need to take appropriate actions in accordance with the means of screening and criteria for screening to confirm that the remittance suspended by the "automatic screening system" is not subject to economic sanctions such as asset freezes.

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| <p>(Notes) i. The financial institutions that use an "automatic screening system" need to manage it, such as adjustment of the settings of the system considering its function and characteristics, in order to appropriately confirm the remittance is not a payment made to or received by designated persons and entities subject to economic sanctions such as asset freezes.</p> <p>ii. The financial institutions are not always required to use the "automatic screening system" if both the sales-related office which</p> |
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usually receives an application of outgoing remittance from a customer and the responsible division in charge of remittance affairs confirm in an appropriate manner, whether or not each remittance falls under those subject to economic sanctions such as asset freezes. It means not only by searching for exact-match names through the use of the "list of those subject to economic sanctions" but also by narrowing down extensive candidates one by one based on the result of extracting similar information from partial-match names.

- iii. When confirmation is carried out by an "automatic screening system" in another financial institution (intermediary bank) and the financial institution with a remittance application received from its customer records information that has been identified as having similarity exceeding a certain ratio by the "automatic screening system," provided from the another financial institution and reasons or the grounds for determining that the information provided is not subject to economic sanctions such as asset freezes, if the reasons were recorded, it may be deemed to be done by either the sales-related office or the responsible division in charge of remittance affairs under ii. above.
- iv. When any regulations or restrictions on receipt of payment from designated persons and entities subject to economic sanctions such as asset freezes are in force, the financial institutions need to carry out confirmation pertaining to incoming remittances in the same manner as requested in cases of outgoing remittances, in principle, before processing the receipt of the remittances. If the financial institution does not use any "automatic screening system" for the confirmation, the responsible division in charge of remittances affairs needs to carry out confirmation using the "list of those subject to economic sanctions" referred to under ii. above.

(iii) Compliance with regulations and restrictions on trade-related payments

i. Remittance of import payments

In making a remittance of import payment where regulations or restrictions on trade-related payment are in force, the financial institutions need to capture necessary information (including through verbal confirmation by the customer; the same applies hereinafter), such as the country of destination, the purpose of remittance (the name of the goods of the import cargo), the place of origin of the import cargo, and the region of shipment, in order to confirm that the outgoing remittance is not subject to economic sanctions such as asset freezes,

in consideration of the particularity of the regulations or restrictions on trade-related payment.

In addition, if there is any suspicious case in terms of the veracity of the necessary information obtained from a customer, the financial institutions need to request the customer to present supporting materials that give rational reasons on the remittance, such as a copy of the sales contract, the customs import permission, or the bill of lading, in order to carry out its confirmation.

When the financial institutions make confirmation with an automatic screening system, they need to register keywords related to the regulations and restrictions on trade-related payment to the program of the screening system in an appropriate manner. The financial institutions also need to carry out careful confirmation in case any registered keyword is detected. On the other hand, if the financial institutions do not use any automatic screening system, they need to confirm if there are keywords related to the regulations of trade-related payment within an application of remittance received from its customer or SWIFT messages pertaining to the remittance, in order to carry out careful confirmation in cases where any of those keywords are detected.

(Note) A. Examples of suspicious cases in terms of the veracity of the necessary supporting information are as follows. However, such cases are not necessarily limited to the following cases.

- a. Outgoing remittance in which the customer's remittance content contains the name of a product, country, region or city that is suspected to be related to trade payment regulations or restrictions
 - b. Outgoing remittance that is suspected to be related to trade payment regulations or restrictions in light of the customer's past transaction status
- B. Terms related to trade payment regulations or restrictions refer to the name of goods or the name of a country/region/city set out in A. a. above, as well as the names and SWIFT codes (refer to the Bankers' Almanac or information on SWIFT member banks) of banks whose head office is located in a country subject to trade payment regulations or restrictions.
- C. For the "region of shipment" out of the necessary information to confirm that a remittance is not subject to economic sanctions such as asset freezes, the financial institutions are required to capture the name of the city where the port of shipment belongs in case of

making a remittance for import payments to a neighboring country of the country sanctioned. However, these requirements may not be applied if it is difficult to identify the name of the city where the place of shipment belongs in the confirmation under a case in which the financial institution receives an application of remittance from a customer via a phone line or other communication network, or under a case at the time of opening of the letter of credit (L/C) in the letter of credit transactions described in (ii) below and the financial institutions have confirmed that the import payment is not related to a city that requires special attention through appropriate customer due diligence based on the RBA, such as by capturing the status of the customer's transactions and the content of their regular remittances and by comparing the remittance data given by the customer with the data the financial institutions have captured.

- D. When trade payment regulations or restrictions are in force, it is noted the financial institutions need to carry out confirmation with regard to all remittances pertaining to trade.

ii. Letter of credit transactions

When trade payment regulations or restrictions are in force, the financial institutions need to identify the necessary information in making a settlement with a documentary bill of exchange with L/C or a documentary bill of exchange without L/C while sending shipping documents through a bank, and the financial institutions need to identify the necessary information prior to the settlement in the same manner as set out in i. above, in consideration of the particularity of the trade payment regulations or restrictions.

In addition, in a case in which there is doubt about the veracity of the necessary information, the financial institutions need to confirm a copy of the customs import permission or other supporting materials pertaining to the import transaction, such as a bill of lading. Furthermore, the financial institutions need to confirm that the other party to the aforementioned transaction is not subject to economic sanctions such as asset freezes in the same manner as set out in (ii) above.

(Note) Since a long period is sometimes required from the opening of an L/C to the settlement due to the nature of L/C transactions, even if the financial institutions have carried out the confirmation set out in ii. above at the time of the opening of the L/C, the financial institutions

are required to carry out confirmation again before executing settlement, such as at the time of arrival of shipping documents.

iii. Intermediary trade transactions

When the trade payment regulations or restrictions are in force, in making a remittance pertaining to a transaction related to the buying and selling, leasing, or granting of goods involving the movement of goods between non-residents in foreign states (hereinafter referred to as "intermediary trade transaction"), to confirm that the remittance is not related to the transaction of goods involving the movement from the third country to the sanctioned country, or a transaction of goods whose origin or port of shipment is the sanctioned country and whose export destination is the third country. It is needed to note the following points.

- A. In carrying out confirmation with regard to an outgoing remittance pertaining to an intermediary trade transaction to a third country, the financial institutions shall confirm (including a declaration from the customer) that the place of destination of the goods pertaining to the transaction and the place of origin of the goods or the port of shipment pertaining to the transaction is not a sanctioned country.
- B. In carrying out confirmation with regard to an incoming remittance pertaining to an intermediate trade transaction from a third country, the financial institutions shall confirm (including a declaration from the customer) that the place of origin of the goods or the port of shipment pertaining to the transaction is not a sanctioned country.

Incidentally, if it is difficult to carry out such confirmation pertaining to the relevant incoming remittance, the financial institutions should take the same action as shown in (iv), ii. (Note) a. below.

- . In addition to A. and B. above, if there is suspicion about the veracity of the content of a remittance or if it is considered that careful confirmation is required due to a potential violation of the trade payment regulations or restrictions, the financial institutions shall request the customer to present supporting materials such as a sales contract with the beneficiary, giving rational reasons on the remittance so that the financial institution can carry out its confirmation.

<Remarks>

"Transaction related to the buying and selling, leasing, or granting of goods" pertaining to an intermediary trade transaction is not limited to the two parties in cases of the "selling" and "buying," "lending" and "borrowing," or "grant" and "receipt of grant" of goods conducted between a resident and non-resident. It also includes the two parties in cases of the "selling" and "receipt of donation," "lending" and "buying or receipt of grant," or "grant" and "buying".

(iv) Compliance with regulations or restrictions on the purpose of the use of funds

i. Outgoing remittance

A. When regulations or restrictions are in force, such as the measure taken as of July 7, 2009 to require permission for making or receiving a payment made under the purpose of supporting activities that may contribute to the development of North Korea's nuclear-related plans/activities, on making or receiving a payment pertaining to the purpose of contributing to specific activities of a "Specified Jurisdiction" (hereinafter referred to as "regulations on the purpose of the use of funds"), in handling an outgoing remittance pertaining to a customer's payment (all outgoing remittances in cases where the regulations on the purpose of the use of funds are not imposed exclusively on outgoing remittances to a "Specified Jurisdiction"), the financial institutions need to capture the necessary information such as the beneficiary financial institution and the purpose of the remittance, in order to confirm whether or not the remittance violates the regulations on the purpose of the use of funds (this includes the declaration from customers).

B. In addition to A. above, when there is doubt about the veracity of the content of an outgoing remittance based on information provided by a customer, such as a beneficiary financial institution, the address of a beneficiary, or the purpose of the remittance, or if a transaction requested from a customer is recognized as being obviously related to a "Specified Jurisdiction" (those that fall under any of Chapter 3 Reference Materials, 1., (1), (i) through (vii)), the financial institutions need to carry out careful confirmation after requesting the customer to present supporting materials for the necessary information to confirm if the transaction conflicts with the regulations or restrictions on payments. In addition, the financial institutions need to carry out careful confirmation in the same manner with regard to transactions suspected of being related to a "Specified Jurisdiction" (those that fall under Chapter 3 Reference Materials, 1., (1), (viii)) in light of the track record of past transactions with the customer.

C. When the financial institutions have introduced an automatic screening system, it is needed to register keywords related to the regulations or restrictions on the purpose of the use of funds to the program of the screening system in an appropriate manner. It is also needed to carry out careful confirmation if any of the relevant keywords is detected in the remittance process. On the other hand, for the financial institutions which have not introduced such an automatic screening system, it is needed to confirm if there are any keywords related to the regulations or restrictions on the purpose of the use of funds on a remittance application form or on SWIFT messages pertaining to the remittance. The financial institutions also need to carry out careful confirmation if any of those keywords is found.

- (Note) a. Words related to the regulations or restrictions on the purpose of the use of funds mean the names and SWIFT codes (refer to a Bankers' Almanac or information on SWIFT member banks) of banks whose head office is located in a country subject to the regulations or restrictions on the purpose of the use of funds, the names of countries/cities subject to the regulations or restrictions, and words related to designated activities (the same applies in ii. below)
- b. For remittances that require careful confirmation, the financial institutions need to carry out careful confirmation after having the relevant remittance procedures suspended. In addition, they need to carry out careful confirmation on remittances requested by customers that are categorized as high risk customers, through appropriate customer due diligence based on the RBA.

ii. Incoming remittance

- A. When regulations or restrictions on the purpose of the use of funds are in force, in handling an incoming remittance pertaining to the receipt of payment by a customer (all incoming remittances in cases where the regulations or restrictions on the purpose of the use of funds are not imposed exclusively on incoming remittances from a "Specified Jurisdiction"), the financial institutions need to capture necessary information (including through declaration by the customer) such as the beneficiary financial institution and the purpose of the remittance in order to confirm if the remittance conflicts with the regulations or restrictions on the purpose of the use of funds.
- B. In addition to A. above, when there is suspicion on the veracity of the content of an incoming remittance based on information,

provided by a customer, such as the name of the foreign sending bank, the address of the sender in a foreign country or region, or the purpose of remittance or when a transaction is recognized as being obviously related to a “Specified Jurisdiction” (those that fall under any of Chapter 3 Reference Materials, 1., (2), (i) through (vii)), the financial institutions need to carry out careful confirmation after requesting the customer to present supporting materials for necessary information in order to confirm if the transaction conflicts with the regulations or restrictions on payments received. In addition, the financial institutions need to carry out careful confirmation in the same manner with regard to transactions suspected of being related to a “Specified Jurisdiction” in light of the track record of past transactions with the customer (those that fall under Chapter 3 Reference Materials, 1. (2), (viii)).

- C. With regard to confirmation of screening any keywords related to regulations or restrictions on the purpose of the use of funds regardless of using an automatic screening system, the financial institutions need to carry out confirmation in the same manner under i. C. above.

- (Notes) a. With regard to confirmation pertaining to incoming remittances, the financial institutions, in principle, need to carry out confirmation in the same manner as that of outgoing remittances, as set out above. However, if it is difficult to do so, in addition to confirmation by the measures as set out under C. above, the financial institutions may engage in customer due diligence based on the RBA through capturing the status of the customer’s transactions and the content of regular incoming remittances, and the financial institution makes confirmation on an incoming remittance to the customer by comparing the customer's transaction data that the financial institution has already captured by appropriate customer due diligence.
- b. For remittances that require careful confirmation, the financial institutions need to carry out careful confirmation after suspending the relevant remittance procedures. In addition, they need to carry out careful confirmation on remittances of customers that are categorized as high risk customers, through appropriate customer due diligence management based on the RBA.

- (v) Compliance with payment regulations for a “Specified Jurisdiction”

- i. When payment regulations or restrictions for a “Specified Jurisdiction” (such as the measure taken on February 19, 2016 to ban the making of payments to individuals and entities in North Korea) are in force, in handling an outgoing remittance pertaining to a customer’s payment, the financial institutions need to identify information (including through oral declaration by the customer; the same applies hereinafter) and confirm whether the remittance conflicts with the payment regulations or restrictions, taking into account information about the beneficiary of the remittance (name, address/location, and the beneficial owner), the beneficiary financial institution, the purpose of the remittance and other information.
- ii. When there is doubt about the veracity of information obtained from the customer on the beneficiary, the financial institutions need to carry out careful confirmation by requesting the customer to present supporting materials or provide a detailed explanation on necessary information in order to confirm the content of the transaction.
- iii. When the financial institutions have introduced an automatic screening system, they need to register keywords related to the payment regulations or restrictions to a “Specified Jurisdiction”, such as the name of the country (region), to the program of the screening system in an appropriate manner and also carry out careful confirmation if any of those keywords is detected in processing the remittance procedures. On the other hand, for financial institutions which have not introduced such a screening system, they need to confirm if there are any keywords related to the payment regulations or restrictions to a “Specified Jurisdiction” in an application of remittance received from a customer or in SWIFT messages pertaining to the remittance. The financial institutions also need to carry out careful confirmation if any of those keywords is found.

(Note) A. Examples of cases in which there is suspicion on the veracity of information on the beneficiary are as follows. However, such cases are not necessarily limited to the following cases.

- a. Outgoing remittance for which the address/location of the beneficiary or the location of the beneficiary financial institution is in a neighboring region of the “Specified Jurisdiction (region)”
- b. According to public or otherwise available information, outgoing remittance for which the beneficiary is a legal person or other organization (hereinafter referred to as "the legal person, etc."), and

the legal person, etc. is suspected of being related to those subject to economic sanctions such as asset freezes

- c. Outgoing remittance which is suspected of being related to the payment regulations or restrictions to a “Specified Jurisdiction (region)” in light of the track record of past transactions of a customer
- B. The financial institutions must pay close attention to the point that the place of payment (location of the beneficiary financial institution) is not necessarily the same region or city as the address/location of the beneficiary. Therefore, in the case of making a remittance to a neighboring country or region of a “Specified Jurisdiction (region)”, it is preferable the financial institutions capture the location (name of city) of the branch office where the beneficiary's account belongs in addition to the place of the head office.
- C. Among the beneficiary's information, when the beneficiary is a legal person and the beneficiary is suspected to have a relationship with those subject to economic sanctions such as asset freezes, as set out in A. b. above, the financial institutions need to carry out careful confirmation by requesting the customer to present the necessary supporting materials for confirming the capital relationship or other relationship with those subject to economic sanctions. On the capturing of information of the beneficial owner, confirmation based on a declaration by the customer would be acceptable in principle.

(vi) Record of the results of confirmation

Based on the contents of the necessary information ascertained to confirm that the remittance is not subject to economic sanctions such as the asset freezes listed in (i) to (v) above, as well as the materials received from the customer and appropriate customer management, etc., it is also necessary to record the details of the confirmation that the remittance is not subject to economic sanctions such as the asset freezes, the confirmation result, and the fact that the confirmation obligation is fulfilled.

When the financial institutions carry out confirmation using an "automatic screening system" with regard to remittances for which the administrative processes is automatically suspended, they need to record the information that is recognized as having similarity exceeding a certain ratio with the keywords registered by the "automatic screening system" and the reason the financial institutions determine that the information was not subject to economic sanctions such as asset freezes.

On the other hand, if the confirmation is made without using the "automatic screening system", it is necessary to record the details of the

confirmation that the remittance was determined not to be subject to economic sanctions such as asset freezes, the confirmation result, and that the confirmation obligation was fulfilled.

(Notes)

- i. It is necessary to keep records regarding this item in writing or by electronic means.
- ii. In cases where there is doubt about the veracity of the necessary information or cases in which careful confirmation has been carried out, the financial institutions need to specifically record and preserve the background and processing of the determination that the remittance is not subject to economic sanctions such as asset freezes.
- iii. With regard to the record of the fact of fulfillment of the confirmation obligation, the financial institutions need to record information to identify the person in charge in an application of remittance or other appropriate document on the necessary information, such as the details of the confirmation, the date of confirmation, and the name of the person who performed the confirmation, etc.
- iv. With regard to the record of the confirmed content, the results of confirmation, and the fact of the fulfillment of the confirmation obligation in cases where confirmation has been carried out without using an "automatic screening system," similar content to that set out in 2-3, (3), (iii) above, is needed.

(vii) Establishment of a cooperative relationship with intermediating financial institutions

When a financial institution that handles remittance receives a request of remittance from another financial institution that received the remittance request from a customer (hereinafter referred to as "intermediating financial institutions"), the financial institution needs to establish and maintain a cooperative relationship in order to surely fulfill the confirmation obligation by obtaining information from the agent financial institution. This allows the financial institution to obtain the necessary information from the agent financial institution in order to confirm that the remittance is not subject to economic sanctions such as asset freezes.

(Notes) i. The provisions on the confirmation obligation based on Article 17 of the Foreign Exchange Act do not apply to the intermediating financial institutions as described above as they are not parties to exchange transactions. However, their cooperation is indispensable

for the financial institution handling the remittances to appropriately fulfill the confirmation obligation as it is the intermediating financial institution which has direct contact with the customers.

- ii. With regard to a cooperative relationship between an intermediating financial institution and a financial institution handling the remittances, it is necessary to first have an agreement that enables the financial institutions handling the remittances to gain necessary information in order to fulfill the confirmation obligation based on Article 17 of the Foreign Exchange Act, such as the purpose of the remittance, and the names, addresses/locations of both the sender and the beneficiary of the remittance, and the place of origin and the shipping port of goods pertaining to the import or intermediate trade transaction of goods from the intermediary financial institutions in a timely and appropriate manner. Then, the financial institutions handling remittances need to regularly monitor the status of implementation of the confirmation by the intermediating financial institutions.

<Remarks>

"Intermediating" refers to cases where a financial institution which receives a request of remittance from a customer is not a party to an exchange transaction pertaining to the request of remittance. An example would be a case where the remittance request forms of the financial institution handling remittances are placed at the intermediating financial institutions so that the intermediating financial institutions can receive remittance requests from customers for the financial institutions handling remittances.

- (2) When the making or receiving of a payment by a customer is subject to economic sanctions such as asset freezes, the financial institutions must carry out the procedures of conducting confirmation in an appropriate manner, based on Article 6 of the Ministerial Order on Foreign Exchange (Ministry of Finance Order No. 44 of 1980) and Article 8 of the Ministerial Order on Trade Related Invisible Trade, etc. (Order of the Ministry of International Trade and Industry No. 8 of 1998).

2-8 Response to economic sanctions such as asset freezes at overseas branches of Japanese banks

The provisions of Article 16, paragraph (1), Article 21, paragraph (1), or Article 25, paragraph (6) of the Foreign Exchange Act also apply to the overseas branches of Japanese banks (financial institutions having their principal offices in Japan; the

same applies hereinafter) in cases where they are parties to a payment or transaction. In addition, with regard to making or receiving payment requested by a customer, the provisions on the obligation of confirmation based on Article 17 of that Act also apply to those branches. Therefore, the overseas branches of Japanese banks also need to develop and maintain an internal control to comply with the Foreign Exchange Act and its regulations related to economic sanctions such as asset freezes.

Specifically, the following actions are required.

- (1) Japanese banks need to build an internal control function at all overseas branches to keep compliance with the Foreign Exchange Act and its regulations related to economic sanctions such as asset freezes, for example, by allocating executive officers or employees who have extensive knowledge of the Foreign Exchange Act and its regulations to each branch.
- (2) Japanese banks need to provide employees, including local staff at overseas branches, with opportunities for training and learning to ensure and increase compliance with the Foreign Exchange Act and its regulations, their internal regulations and procedures to conduct administrative work pertaining to compliance with the Foreign Exchange Act and its regulations in an appropriate manner.
- (3) The overseas branches of Japanese banks also need to prepare an appropriate sanction list that appropriately includes those who are subject to economic sanctions unique to Japan and keywords related to restriction on the purpose of the use of funds, as well as an automatic screening system. Account management, confirmation of payment, etc. shall be carried out in the same manner as in Japan, and the implementation status should be appropriately monitored by the person in charge of freezing assets in Japan.

2-9 Capturing of the status of response to economic sanctions such as asset freezes, etc.

- (1) If a natural person or legal person subject to economic sanctions such as asset freezes is newly designated or if necessary, the asset freeze administrator needs to receive a report from the related divisions and branch offices on the status of response to economic sanctions such as asset freezes and is requested to capture the status of the response in a precise and prompt manner.

(Notes) For Japanese banks, related divisions and branch offices include overseas branches.

In addition, when the division in the head office that supervises overseas branches is different from the responsible division for response to economic sanctions such as asset freezes, the reports pertaining to the status of the response at overseas branches need to be shared with the relevant responsible division in a precise and prompt manner.

- (2) The asset freeze administrator needs to indicate related divisions and branch offices to report to if there is any making or receiving of payments to or from a designated person and entity subject to economic sanctions such as asset freezes in the operations, including a contract on capital transactions or service transactions. In addition, the asset freeze administrator needs to carry out management of making or receiving a payment from the perspective of compliance with the Foreign Exchange Act and its regulations.
- (3) The asset freeze administrator needs to verify the effectiveness of internal administrative procedures and organizational frameworks intended to comply with the Foreign Exchange Act and its regulations related to economic sanctions such as asset freezes in a timely and appropriate manner. In addition, the asset freeze administrator needs to review them to respond to changes in the actual business conditions or activities.
- (4) The asset freeze administrator needs to report the status of compliance with the Foreign Exchange Act and its regulations related to economic sanctions such as asset freezes to the board of directors, etc. on an as needed basis. Based on the reports, it is needed for the board of directors, etc. to carry out appropriate decision-making concerning matters such as management of compliance with the Foreign Exchange Act and its regulations related to economic sanctions such as asset freezes.

(Note) Regarding reports to the board of directors, etc., the financial institutions may include statements concerning the status of compliance with the Foreign Exchange Act and its regulations related to economic sanctions such as asset freezes in a report concerning the overall status of legal compliance.

- 3. **Items concerning compliance with the Criminal Proceeds Act and its regulations pertaining to verification at the time of transaction, etc. in the currency exchange business and compliance with the Foreign Exchange Act and its regulations pertaining to the obligation to identify customers, etc. (excluding the currency exchange business)**

3-1 Internal control to perform verification at the time of transaction and to fulfill the obligation to identify customers

- (1) Positioning of the Criminal Proceeds Act and its regulations related to verification at the time of transaction and the Foreign Exchange Act and its regulations in relation to the obligation to identify customers in the legal compliance management

The CEO needs to develop an internal control to comply with the Foreign Exchange Act and its regulations, etc., within the framework of the legal compliance management, based on "Guidelines Chapter 2, 1. - Items concerning the internal control for compliance with the Foreign Exchange Act and its regulations, etc."

- (2) Positioning of compliance with the Foreign Exchange Act and its regulations, etc. in the risk control

The CEO needs to develop an internal control to comply with the provisions on verification at the time of transaction and the obligation to identify customers pertaining to the currency exchange business of financial institutions under the Foreign Exchange Act and its regulations (referred to as "verification at the time of transaction" in this item), within the framework of the risk control, based on " Guidelines Chapter 2, 1. - Items concerning the internal control for compliance with the Foreign Exchange Act and its regulations, etc. " .

(Note) Including this item as well as (1) above, it is important to develop appropriate management based on the recognition that specified business operators need to comply with the Criminal Proceeds Act and its regulations related to verification at the time of transaction, etc., for ensuring the response to economic sanctions such as asset freezes.

- (3) Establishment and maintenance of assessment records (risk assessment documents) required of specified business operators

The CEO needs to prepare assessment records (risk assessment documents), required of specified business operators, which contain records of its identification and assessment of risks of money laundering, etc., on its own currency exchange transactions while following the points listed in (i) through (iii) below.

- (i) Comprehensively and specifically evaluate risks of the products and services offered, transactions types, the countries and geographic areas of transactions, customer attributes, and other relevant factors, while considering the results of the national risk assessment.
- (ii) Involve the Board in the processes of risk assessment, and obtain approval from the Board for documenting the results of the risk assessment.
- (iii) Conduct the review of the risk assessment regularly, as well as when an event that may have a significant impact on AML/CFT measures occurs.

(4) Other

The CEO needs to appoint a director in charge or manager who is responsible for performing verification at the time of transaction, etc. (hereinafter referred to as "administrator for verification at the time of transaction, etc."). In addition, the CEO needs to develop an internal control in which an administrator for verification at the time of transaction, etc. coordinates among related divisions and branches, including divisions of compliance, operation, administration, and sales, to ensure compliance with the provisions of the Criminal Proceeds Act and its regulations related to verification at the time of transaction, etc.

(Note) Even if the CEO has not appointed a responsible person by specifying the Criminal Proceeds Act and its regulations related to verification at the time of transaction, etc., the CEO is required to take actions for complying with the provisions of the Criminal Proceeds Act and its regulations related to verification at the time of transaction, etc., while keeping the following points in mind.

- (i) It should be made clear from the corporate post of director in charge or manager that the person is responsible for compliance with the Criminal Proceeds Act and its regulations related to verification at the time of transaction, etc.
- (ii) The relevant director or manager in charge should actually coordinate among related divisions and branches and take measures to develop and maintain internal control to comply with the Criminal Proceeds Act and its regulations related to verification at the time of transaction, etc.

3-2 Performance of verification at the time of transaction, etc. in the currency exchange business

(1) Transactions or acts that require verification at the time of transaction

The CEOs need to perform verification at the time of transaction with regard to the currency exchange business, while keeping in mind the points listed in (i) through (iv) below, based on the provisions of the Criminal Proceeds Act and its regulations with regard to verification at the time of transaction.

(i) Matters to be verified at the time of transaction

When a currency exchange transaction is conducted with a customer between Japanese currency and a foreign currency to the amount of over two million yen or a sale or purchase of traveler's checks over two million yen (including cases where it is clear that a transaction has been intentionally divided to reduce the amount of each transaction to two

million yen or less; hereinafter referred to as "currency exchange transaction over two million yen"), or when the relevant transaction falls within the definition of a transaction requiring special attention (meaning a suspicious transaction or a transaction that is conducted in a markedly different manner from that of other transactions of the same type; the same applies hereinafter), the CEOs must perform verification at the time of transaction in relation to the following matters.

- i. Customer identification information
- ii. Purpose of conducting the transaction
- iii. Occupation when the customer is a natural person, and contents of business when the customer is a legal person
- iv. Customer identification information of the beneficial owner of the customer's business when the customer is a legal person

(ii) Transaction with a person who is in charge of the transaction

Upon conducting a currency exchange transaction of over two million yen or a transaction requiring special attention, if the natural person who is in charge of the transaction differs from the customer, the CEOs must confirm the identification information of the natural person who is in charge of the currency exchange transaction, in addition to the confirmation of the customer's identification information.

Furthermore, the CEOs should keep in mind that the CEOs need to confirm that the natural person, who is in charge of the currency exchange transaction, engages in the transaction on behalf of the customer (Article 12, paragraph (5) of the Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds).

(iii) Transactions for which rigorous customer due diligence is deemed to be particularly necessary (high-risk transactions)

In conducting a currency exchange transaction that falls under any of the following categories, with a customer, the CEO must conduct appropriate verification based on the recognition that the currency exchange transaction is one for which enhanced customer due diligence is deemed to be particularly necessary.

- i. Currency exchange transactions in which a transaction partner is suspected of disguising himself/herself as the customer or representative person, etc. pertaining to the confirmation at the time of transaction conducted upon the conclusion of a contract, etc. related to that transaction (hereinafter referred to as "confirmation at the time of the relevant transaction") (Impersonation transactions)
- ii. Currency exchange transactions with a customer who is suspected to have given, on the occasion of the verification at the time of the relevant

transaction, false information pertaining to that confirmation at the time of the relevant transaction (false transactions)

- iii. Currency exchange transactions over two million yen with a customer who resides or is located in Iran or North Korea (transactions with a customer in Iran or North Korea)
- iv. Currency exchange transactions over two million yen with a politically exposed person, etc. of a foreign country (hereinafter referred as a "foreign PEP"*) (transaction with a foreign PEP)

*PEPs: Politically Exposed Persons

(Note) The transactions referred to in (i) and (ii) above include those based on a continuous contract, etc. concluded between an FI and a customer (currency exchange transaction accompanying withdrawal from an account based on a deposit contract, etc.) and do not include single isolated currency exchange transactions with one-off customers.

(iv) Method of conversion

The method of converting the amount to yen in determining currency exchange transactions subject to confirmation at the time of transaction must comply with the provisions of Article 35 of the Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds.

(2) Method of verification of customer identification data

The CEOs must conduct verification of customer identification matters by an appropriate method while keeping the points listed in (i) through (v) below in mind, based on the provisions of the Criminal Proceeds Act and its regulations related to verification at the time of transaction, etc.

- (i) The CEOs need to verify customer identification matters using identification documents in the following categories.
 - i. Verification of customer identification matters are to be completed only by the presentation of identification documents
 - ii. Upon receiving the customer identification documents, verification of customer identification matters shall be completed by one of the following three methods.
 - A. Receiving other identification documents or supplementary documents
 - B. Receiving originals or copies of other identification documents or supplementary documents
 - C. Sending a non-transfer-required postal item, etc.
 - iii. Upon receiving customer identification documents, verification of customer identification matters shall be completed by sending non-transfer-required postal item, etc.

- (ii) Apart from the methods in (i.) above, when the CEO conducts verification of customer identification, in a non-face-to-face manner, it is needed to follow one of the methods below, according to the classification of customers.
- i. Customers who are natural persons
- A. Receiving a transmission of an image of the customer's appearance and customer identification documents attached with a face photo
 - B. Receiving a transmission of an image of the customer's features and IC chip information embedded in customer identification documents attached with a face photo.
 - C. Conducting one of the following actions, while receiving a transmission of an image of the identity verification document or the IC chip information embedded in the customer identification documents attached with a face photo.
 - a. Confirming whether other specified business operators have already confirmed that the customer is the same person on its confirmation record, etc. with other specified business operators who have already confirmed the identification of the customer.
 - b. Transferring money to a customer's deposit account (limited to accounts for which the customer identification matters have been confirmed) and receiving a copy of a bank passbook with information that can identify the transfer from the customer.
 - D. Performing any of the following acts and sending business-related documents to the residence of the customer, etc., by registered, non-transfer-required mail.
 - a. Receiving the customer identification document.
 - b. Receiving a transmission of the information recorded in the IC chip or information embedded in the customer identification document.
 - c. Receiving a transmission of images, etc., of the customer identification document using the software provided by the specified business operator.
 - d. Receiving copies of two kinds of customer identification documents (in which the customer's current residence is indicated).
 - e. Receiving a copy of the customer identification document (in which the customer's current residence is indicated) and a supplementary document (in which the customer's current residence is indicated) or its copy.
 - E. Sending business-related documents to the residence of the customer, etc., by post mail to be received only by the addressee or other mail, and

having the customer present a customer identification document with a photo of the customer's face upon receiving the mail.

(Note) The "other mail" on E. above must have functions to notify the specified business operator of the following information: the name of the person who has, on behalf of the specified business operator, verified the customer's residence and also verified the customer identification information by having the customer present a customer identification document with a photo of the customer's face, and other information for identifying such person; the date and time of receiving the customer identification document, as well as the name, code and number of the customer identification document and other information for identifying the customer identification document.

ii. Customers as legal persons

A. Receiving the declaration of the name of the customer and the location of the head office or the main office from the representative of the legal person, while receiving the registration information from the Civil Law Association of Japan, and sending it to the head office of the customer by registered, non-transfer-required mail.

B. Confirming the customer's identification publicized by the National Tax Agency and sending business-related documents to the head office by registered, non-transfer-required mail, while receiving a declaration of the name of the customer and the location of the head office or principal office from the representative of the corporation, etc.

(iii) For identification documents with a period of validity, the documents must be valid on the day of confirmation, and for identification documents without a period of validity, the documents must have been prepared within six months from the day of the presentation or receipt.

(iv) In conducting verification of customer identification data, the CEO needs to take appropriate actions where a document presented or submitted by a customer is suspected of having been counterfeited or altered, etc. (for example, submission of a suspicious transaction report or rejection of the transaction).

(v) If a specified business operator outsources work, such as receipt and verifying of documents presented by customers at the time of verification of customer identification data, it is to first conclude an agreement, etc., which ensures the implementation of the verification of customer identification

data, with the trustee under the recognition that the financial CEO, etc. bears the obligation to conduct verification of customer identification data. Then the specified business operator should regularly monitor the status of implementation of customer identification by the trustee.

(3) Response to transactions or acts that are not subject to confirmation at the time of transaction

In order for a specified business operator to further assure measures against money laundering, etc., it is important to not only perform verification at the time of transaction for a currency exchange transaction over two million yen or a transaction requiring special attention, but also to collect information that contributes to identifying the customer, including the name of the customer, even when conducting a currency exchange transaction that is not subject to verification at the time of transaction.

In addition, the CEOs have to endeavor to use the collected information for measures to appropriately perform verification at the time of transaction, etc. by, for example, organizing and analyzing the information and reflecting the analysis results, etc. in “assessment records”.

- (Note) (i) Examples of the aforementioned "information that contributes to identifying the customers" are as follows. A specified business operator needs to ask customers for cooperation for its declaration on any of the following or "information that contributes to identifying the customers" that is equivalent thereto.
- i. Address or location
 - ii. Telephone number
 - iii. Nationality and passport number
 - iv. Code and number of a driver's license (for those issued in a foreign state, including the name of the country, region, etc. where the driver's license was issued)
 - v. In the case of a group tour, the name of the group, such as the school, and location of the group (limited to currency exchange conducted by a specified business operator along with travel business)
 - vi. Flight number (limited to currency exchange at the airport)
- (ii) It is necessary to endeavor to take the aforementioned actions for currency exchange exceeding the amount equivalent to 100,000 yen.

(4) Method of verification of customer identification data of a foreign national who does not have a domicile in Japan

For a foreign national who does not have a domicile in Japan and who has the status of residence of "temporary visitor" (tourist, etc.) and whose domicile in the state to which the foreign national belongs cannot be verified based on statements in the foreign national's passport, etc., the CEO must verify the nationality and identification number by the foreign national's passport or crew member's pocket-ledger in addition to the name and date of birth as customer identification data, based on Article 8 of the Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds.

In addition, in conducting verification, it should be kept in mind that the CEO needs to verify by a seal of verification for landing, etc. that the period of stay of the foreign national has not exceeded 90 days.

(5) Method of verification of the purpose and intended nature of conducting a transaction

The CEO must conduct verification of the purpose and intended nature of conducting a transaction by having the customer give information, while referring to Chapter 3 Reference Materials, 2., "(1) Types of purposes of conducting a transaction" (Article 9 of the Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds).

(6) Method of verification of occupation and contents of business

(i) For a customer that is a natural person or an association or foundation without juridical personality, the CEO must conduct verification of the occupation or contents of the business of the customer by having the customer or representative person, etc. give information, while referring to Chapter 3 Reference Materials, 2., "(2) Types of occupations and contents of business" (Article 10, item (i) of the Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds).

(ii) For a customer that is a corporation (excluding a listed company, etc.), the CEO must verify any of the documents set forth in Article 10, item (ii) of the Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds or a copy thereof in conducting the verification of the contents of business.

(iii) For a customer that is a corporation having its head office or principal office in a foreign state, the CEO must verify any of the documents listed in Article 10, item (iii) of the Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds or a copy thereof in conducting verification of the contents of business.

(7) Method of verification of the beneficial owner of a legal person

The CEO must conduct verification of the beneficial owner of a customer that is a legal person by seeking reliable evidence (Article 32, paragraph (1), item (ii)

of the Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds).

(8) Method of verification of a high-risk transaction

- (i) The CEO must conduct verification of the customer identification data of a customer in relation to a transaction with a person who is suspected of pretending to be a customer, etc. or representative person, etc. or a transaction with a customer, etc. who is suspected to be hiding money laundering or terrorist financing or have given other false information concerning matters such as identification data, purpose and intended nature of conducting a transaction, occupation, contents of business, etc. by a method which uses additional identification documents or supplementary documents (additional verification method) in addition to the verification method for ordinary transactions (ordinary verification method). In this case, the CEO must conduct verification by using at least one of the identification documents or supplementary documents other than the identification documents or supplementary documents used for the verification at the time of the relevant transaction (Article 14, paragraph (1) of the Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds).
- (ii) The CEO must conduct verification of the customer identification data in relation to a transaction with a customer in Iran or North Korea or a foreign PEP by a method which uses additional identification documents or supplementary documents (additional verification method) in addition to the verification method for ordinary transactions (ordinary verification method) (Article 14, paragraph (1) of the Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds).
- (iii) If a transaction with a customer that is a corporation falls under a transaction with a party who is suspected of pretending to be a customer, etc. or representative person, etc. or a transaction with a customer, etc. who is suspected to hide money laundering or terrorist financing or have given other false information concerning matters such as identification data, purpose and intended nature of conducting a transaction, occupation, contents of business, etc., a transaction with a customer in Iran or North Korea, or a transaction with a foreign PEP, etc., the CEO must conduct verification of the beneficial owner of the corporation by referring to a shareholder register, annual securities report, etc., certificate of registered information, or documents issued by a public agency, etc. according to the categories of corporations, and also have the representative person, etc. of the customer provide information (Article 14, paragraph (3) of the

Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds).

- (iv) In a transaction conducted under a transaction with a party who is suspected of pretending to be a customer, etc. or representative person, etc. or a transaction with a customer, etc. who is suspected to hide money laundering or terrorist financing or have given other false information concerning matters such as identification data, purpose and intended nature of conducting a transaction, occupation, contents of business, etc., a transaction with a customer in Iran or North Korea, or a transaction with a foreign PEP, etc. to the amount of over two million yen, the CEO must conduct verification of the status of the assets and income using one or two or more documents or copies thereof according to the category of the customer (Article 14, paragraph (4) of the Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds).

Meanwhile, it needs to be kept in mind that strict action may be required even if the transaction amounts to two million yen or less (Article 32, paragraph (1) of the Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds).

- (Note) i. The verification method referred to in (i) above is as shown below.
- A. The ordinary verification method is a method of verification through presentation of identification documents or supplementary documents, or sending of identification documents or supplementary documents or copies thereof.
 - B. The additional verification method is a method of verification through presentation of identification documents or supplementary documents other than those used for the ordinary verification method, or sending of such identification documents or supplementary documents or copies thereof.
- ii. The method of verification of the status of assets and income by using "one or two or more" documents referred to in (iv) above means a method to conduct verification using one document, if the status of assets and income can be determined based on one document, and if not, using additional documents for the verification.

(9) Ongoing customer due diligence

The CEO needs to continuously scrutinize information of the customer (including information of the customer's beneficial owner) verified at the time of the transaction with regard to customers with whom it has continuous

business relationships through currency exchange transactions, at the frequency according to the risks associated with the customer or transaction (Article 32, paragraph (1), item (iii) of the Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds).

(10) Preparation and preservation of verification records

The CEO must prepare and preserve verification records in an appropriate manner while keeping the points listed in (i) through (iv) below in mind, based on the provisions of the Criminal Proceeds Act and its regulations related to verification at the time of transaction, etc.

- (i) When presented with identification documents or supplementary documents for conducting the verification of customer identification data, the CEO is to record the date and time of the presentation (only the date if the CEO attaches copies of the identification documents to verification records and preserves them with those records for seven years) (Article 20, paragraph (1), item (iii) of the Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds).
- (ii) In the case of conducting the customer identification and verification digitally, in a non-face-to-face manner, the CEO appropriately makes records based on image information and IC chip information provided by the customer, listed in the Article 20, Paragraph (1) item from (6) to (10) of the Ordinance for Enforcement of the Criminal Proceeds Act.)
- (iii) When having become aware of a change or addition to customer identification data, etc. in verification records, the CEO is to attach a supplementary note of the content of the change or addition to the verification records (Article 20, paragraph (3) of the Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds). In addition, it should be kept in mind that, in that case, the CEO must preserve the matters already recorded in the verification records (excluding the content of the change or addition) without deleting them.
- (iv) If the CEO makes verification records in multiple written records, each recorded matter is to be recorded by a method that can be linked. In addition, the CEO is to preserve each written record in an appropriate manner.
- (v) The CEO is to endeavor to continuously scrutinize verification records while taking into account the content of “assessment records”, etc.

(11) Capturing of the status of performance of verification at the time of transaction, etc.

- (i) The administrator for verification at the time of transaction, etc. is required to receive reports on the status of performance of verification at the time of

transaction, etc. from related divisions and branches on an as needed basis and thereby identify the status of performance in a precise manner.

- (ii) The administrator for verification at the time of transaction, etc. is required to verify the effectiveness of administrative procedures and organizational frameworks intended to comply with the Criminal Proceeds Act and its regulations related to verification at the time of transaction, etc. in a timely and appropriate manner. In addition, the administrator needs to review the administrative procedures and organizational frameworks intended to comply with the Criminal Proceeds Act and its regulations related to verification at the time of transaction, etc. under the recognition that the performance of verification at the time of transaction, etc. is a factor that is important in complying with the Criminal Proceeds Act and its regulations in accordance with changes, etc. of the actual conditions of business on an as needed basis.
- (iii) The administrator for verification at the time of transaction, etc. needs to report the status of compliance with the Criminal Proceeds Act and its regulations related to verification at the time of transaction, etc. to the board of directors, etc. as needed. Based on the reports submitted to the board of directors, etc., it needs to carry out appropriate decision-making concerning matters such as the management development for complying with the Criminal Proceeds Act and its regulations related to verification at the time of transaction, etc.

(Note) Regarding reports to the board of directors, etc., the CEO s may include statements concerning the status of fulfillment of the obligation to conduct verification at the time of transaction in a report concerning the overall status of legal compliance.

(12) Other matters to keep in mind

- (i) In performing verification at the time of transaction, etc. stated above, the CEO must endeavor to implement risk mitigation measures that assume the risks it has specified and assessed, referring to the matters to be kept in mind in Chapter 3. Reference Materials, 2.

(Note) In addition to the measures that are implemented based on risk assessments of individual customers, risk mitigation measures are also effective according to the types of unusual transactions detected by transaction monitoring. It is important to implement a combination of these measures.

- (ii) In conducting transactions that are considered to involve high risks, such as high-risk transactions and transactions requiring special attention, the CEO must endeavor to obtain the approval of an administrator for

verification at the time of transaction, etc. or a person entrusted thereby for execution of the transaction, and maintain the records thereof.

3-3 Fulfillment of the obligation to identify customers, etc. (excluding the currency exchange business)

(1) Transactions or acts that require customer identification

The CEO must conduct customer identification with regard to specified exchange transactions or acts such as conclusion of a contract pertaining to capital transactions, while keeping the points listed in (i) to (vi) below in mind, based on the provisions of the Foreign Exchange Act and its regulations related to the obligation to identify customers, etc.

- (i) In conducting a specified exchange transaction pertaining to a customer's (resident) payment to and receipt of payment from a non-resident, the CEO needs to conduct customer identification even where the specified exchange transaction is conducted within Japan.

(Note) It is sufficient to exercise ordinary care in determining whether or not the other party to the transaction is a non-resident (the same applies in (iii)).

- (ii) If a natural person who is in charge of a specified exchange transaction is not a customer, the CEO needs to conduct the customer identification of the natural person who is in charge of the specified exchange transaction as well as that of the customer.
- (iii) The CEO needs to distinguish accounts for which customer identification has yet to be obtained from other accounts so as to make it possible to conduct the customer identification in an appropriate manner when conducting a transaction that requires the customer identification.

(Note) If it is in fact difficult to conduct customer identification prior to a transaction, it is sufficient to obtain the customer identification after the start of the transaction, within the scope that is reasonable in terms of generally accepted ideas concerning transactions.

- (iv) The CEO needs to conduct customer identification while dividing transactions or acts, etc. subject to customer identification into those that come not to require customer identification depending on the amount criteria and those that require customer identification irrespective of the amount criteria.
- (v) If a customer whose customer identification has already been conducted is suspected of having disguised customer identification data or of pretending to be another person, the CEO is to obtain the customer identification of the customer again.

- (vi) The method of converting the amount to yen in the making or receiving of a payment and cash transactions subject to customer identification is to comply with the provisions of foreign exchange laws and regulations.

(2) Other matters to keep in mind

With regard to matters such as the internal control, method of verification of customer identification data, preparation of verification records, and identification of the status of fulfillment of the obligation to identify customers, etc., other than those in (1) above, the CEO needs to take appropriate actions in the same manner as in the aforementioned 3-1 and 3-2.

3-4 Other

- (1) The CEO needs to confirm whether all their customers with ongoing business relationships through currency exchange transactions for a certain period are subject to economic sanctions such as asset freezes or not, and thereby to ensure that they do not engage in currency exchange transactions with any persons or entities under such sanctions.
- (2) It is desirable for the CEO to register for the Email Service on Foreign Exchange Act-related Information by which the Legal Office, International Bureau, MOF, provides information related to the Foreign Exchange Act.

4. Items concerning compliance with the Foreign Exchange Act and its regulations in relation to the accounting, etc., of the special international financial transactions account

4-1 Internal control management to comply with the Foreign Exchange Act and its regulations in operational transactions and accounting handled on the special international financial transactions account (hereinafter referred to as "offshore account")

- (1) Positioning of compliance with the Foreign Exchange Act and its regulations in operational transactions and accounting handled on the offshore account in the legal compliance management

The financial institutions approved to open offshore accounts (hereinafter referred to as "offshore account institutions") need to develop and maintain their internal control management to comply with the Foreign Exchange Act and its regulations (in relation to the offshore account) within the framework of the legal compliance management, based on "Chapter 2, 1. Items concerning the internal control for compliance with the Foreign Exchange Act and its regulations, etc." of the Guidelines.

- (2) Positioning of compliance with the Foreign Exchange Act and its regulations in the risk management framework

The offshore account institutions need to develop and maintain an internal control to comply with the Foreign Exchange Act and its regulations, (in relation to the offshore account) within the framework of the risk control, based on "Chapter 2, 1. Items concerning the internal control for compliance with the Foreign Exchange Act and its regulations, etc." of the Guidelines.

(3) Other

The offshore account institutions need to appoint a director or manager who is responsible for compliance with the Foreign Exchange Act and its regulations in operational transactions and accounting handled on the offshore account (hereinafter referred to as "offshore account administrator"). In addition, the offshore account institutions need to develop and maintain internal control management in which the offshore account administrator coordinates among related divisions and branch offices, including the compliance control division, operational divisions, administrative divisions, and sales offices, to ensure compliance with the provisions of the Foreign Exchange Act and its regulations in operational transactions and accounting handled on the offshore account.

(Note) Even if the offshore account institutions have not appointed the offshore administrator, the offshore account institutions need to take actions for ensuring compliance with the provisions of the Foreign Exchange Act and its regulations in operational transactions and accounting handled on the offshore account, taking into account the following points.

- (i) The offshore account institutions need to give clear responsibilities and roles to any directors or managers for compliance with the Foreign Exchange Act and its regulations in operational transactions and accounting handled on the offshore account.
- (ii) The responsible director or manager actually can coordinate among related divisions and branch offices and take measures to develop and maintain internal control management to comply with the Foreign Exchange Act and its regulations in operational transactions and accounting handled on the offshore account.

4-2 Compliance with the Foreign Exchange Act and its regulations related to accounting of the Special International Financial Transactions Account (hereinafter referred to as "the offshore account")

(1) Eligibility of transactions which can be booked on the offshore account

- (i) When the offshore account institutions intend to book a transaction that gives rise to a claim under a deposit contract on the offshore account, the deposit contract must have eligibility for booking on the offshore account.
 - (ii) If a transaction booked on the offshore account pertains to the emergence of a claim under a money loan agreement on the offshore account, the agreement must have eligibility for booking on the offshore account.
 - (iii) If a transaction booked on the offshore account is pursuant to an acquisition or transfer of securities issued by a non-resident on the offshore account, the acquisition or transfer of securities must have eligibility for booking on the offshore account.
- (2) Confirmation of the counter party of a transaction
- (i) If the counter party of a transaction is a non-resident, it is needed to carry out confirmation procedures governed by the provisions of the Ministerial Order on Foreign Exchange in an appropriate manner with regard to the eligibility of the non-resident.
 - (ii) If the counter party of a transaction is another offshore account institution, it is needed for the offshore account institution to mutually confirm that the transaction is booked on the offshore account in both offshore account institutions.
- (3) Confirmation of the purpose of the use of funds pertaining to money loans
- The offshore account institutions need to carry out confirmation procedures pursuant to the provisions of the Ministerial Order on Foreign Exchange in an appropriate manner in cases where funds of money loans to a non-resident are used in a foreign state if the financial institutions intend to book the transaction on the offshore account.
- (4) Status of keeping books and documents pertaining to transactions
- The offshore account institutions must keep books and documents that satisfy the requirements specified by the Ministerial Order on Foreign Exchange with regard to transactions booked on the offshore account.
- (5) Status of compliance with the accounting criteria
- (i) With regard to claims and obligations pertaining to transactions or acts booked on the offshore account, the offshore account institutions must settle them through other accounts.
 - (ii) The offshore account institutions must process the accounting pertaining to the transfer of funds between the offshore account and other accounts in an appropriate manner, taking into account the points listed in (i) and (ii) below.
 - i. The amount pertaining to the transfer of funds from the offshore account to other accounts is not to exceed the legislative maximum limits at the closing time of each day.

- ii. The total of the amount pertaining to the transfer of funds from the offshore account to other accounts in a month does not exceed the monthly total of the amount pertaining to the transfer of funds from other accounts to the offshore account.
- (iii) The offshore account institutions must process the accounting pertaining to shifts from other accounts to the offshore account in an appropriate manner, taking into account the points listed in (i) to (iv) below (limited to the institutions newly approved to open an offshore account).
 - i. The shifts are to be conducted during the period from the date of the start of accounting on the offshore account to the last day of the following month.
 - ii. The amount pertaining to the operation of funds and the amount pertaining to the procurement of funds shifted to the offshore account must be equal on the last day of the possible period for the shifts of funds from other accounts.
 - iii. The transactions or acts being shifted to the operation and procurement of funds must be started prior to the date of approval for opening an offshore account.
 - iv. The offshore institutions need to record the date of the shift and other necessary items with respect to each shift.
- (iv) The daily foreign exchange rate to be applied for the accounting of the offshore account must be the same as that on other accounts for transactions or acts between the same kind of foreign currency which has no exchange with other foreign currencies and the Japanese currency.
- (6) Capturing of the status of compliance with the Foreign Exchange Act and its regulations in operational transactions and accounting on the offshore account
 - (i) The offshore account administrator needs to receive reports on the status of compliance with the Foreign Exchange Act and its regulations in operational transactions and accounting on the offshore account from related divisions and branch offices on an as needed basis and thereby accurately identify the status of compliance.
 - (ii) The offshore account administrator needs to verify the effectiveness of administrative procedures and organizational frameworks intended to comply with the Foreign Exchange Act and its regulations in operational transactions and accounting on the offshore account in a timely and appropriate manner. In addition, the offshore accounting administrator needs to review the administrative procedures and organizational frameworks intended to comply with the Foreign Exchange Act and its regulations in operational transactions and accounting on the offshore

account to respond to changes in the actual business conditions and activities as needed.

- (iii) The offshore account administrator needs to report the status of compliance with the Foreign Exchange Act and its regulations in operational transactions and accounting on the offshore account to the board of directors, etc. as needed. Based on the reports submitted to the board of directors, etc., it needs to carry out appropriate decision-making concerning matters such as the management development for complying with the Foreign Exchange Act and its regulations, in operational transactions and accounting on the offshore account.

(Note) Regarding reports to the board of directors, etc., of the financial institutions, statements concerning the status of compliance with the Foreign Exchange Act and its regulations in operational transactions and accounting on the offshore account may be included in a report concerning the overall status of legal compliance.

5. Items concerning compliance with the Criminal Proceeds Act and its regulations pertaining to the suspicious transaction reporting obligation, etc. in the currency exchange business

[Purpose of suspicious transaction reporting]

Suspicious transaction reporting prevents criminal proceeds, etc. from being transferred using specified business operators through reporting of information about transactions that are determined to be suspected of being related to criminal proceeds, etc. in comprehensive consideration of the attributes of customers, the circumstances at the time of transactions, and other specific information that specified business operators have, on the premise of general knowledge/experience of the specified business operators. In light of this purpose, if a specified business operator detects a suspicious transaction in the currency exchange business, it must file a suspicious transaction report without fail.

5-1 Internal control to fulfill the suspicious transaction reporting obligation

- (1) Positioning of compliance with the Criminal Proceeds Act and its regulations in the legal compliance management

The CEO needs to develop an environment to comply with the Criminal Proceeds Act and its regulations (in relation to the suspicious transaction reporting obligation) within the framework of the legal compliance management, based on "Chapter 2, 1. Items concerning the internal control for compliance with the Foreign Exchange Act and its regulations, etc." of the Guidelines.

(2) Positioning of compliance with the Criminal Proceeds Act and its regulations in the risk control

The CEO needs to develop an environment to comply with Criminal Proceeds Act and its regulations (in relation to the suspicious transaction reporting obligation) within the framework of the risk management environment, based on "Chapter 2, 1. Items concerning the internal control for compliance with the Foreign Exchange Act and its regulations, etc." of the Guidelines. In addition, the CEO needs to keep the following points in mind in particular in developing its management.

- (i) A specified business operator is to prepare and disseminate to the person in charge of transactions (meaning the person in charge who conducts transactions with customers; the same applies hereinafter) a specific administrative procedure manual for suspicious transaction reporting. Furthermore, an administrative procedure manual needs to include, in particular, the following content.
 - i. “Reference cases of suspicious transactions” to be used to appropriately examine and determine whether an individual transaction constitutes a suspicious transaction

(Notes) A. In the currency exchange transactions, cases that require special attention in terms of “reference cases” are "Reference Cases of Suspicious Transactions Pertaining to Buying and Selling of Foreign Currency or Traveler’s Checks," and “reference cases” must include these cases in an appropriate manner. In addition, even cases that are not included in "Reference Cases of Suspicious Transactions Pertaining to Buying and Selling of Foreign Currency or Traveler’s Checks" must be included in “reference cases” if they are determined to constitute suspicious transactions based on experience, etc. in the currency exchange business.

B. It should be kept in mind that there is a need to immediately review “reference cases” if a suspicious transaction that does not match “reference cases” is detected. In addition, it should be kept in mind that there is a need to review “reference cases” where any change has been made to the aforementioned "Reference Cases of Suspicious Transactions Pertaining to Buying and Selling of Foreign Currency or Traveler’s Checks."

- ii. Items and methods for appropriately examining and determining whether the relevant transaction constitutes a suspicious transaction

(Articles 26 and 27 of the Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds)

- iii. Administrative work procedures that the person in charge of transactions should follow to immediately file suspicious transaction reports, such as the communication environment in cases where a suspicious transaction has been detected or where a transaction for which it is not clear whether it falls under suspicious transactions has been detected
 - iv. Method of disseminating to the person in charge of transactions the information about transactions that require special attention, including information about transactions for which the specified business operator has filed a suspicious transaction report
- (ii) The specified business operator is to verify the content and effectiveness of the measures taken to mitigate transactions risk and review the measures if necessary. In addition, it is to establish the required control environment for appropriately applying those measures to the same type of transactions.
 - (iii) With regard to a customer that has been filed in a suspicious transaction report in the past (not limited to currency exchange transactions), the specified business operator is to review the risk assessment if necessary and appropriately implement risk management and risk mitigation measures according to the risk.
 - (iv) The specified business operator is to establish a monitoring environment for detecting unusual transactions, by means such as conducting scenario analysis by reflecting its risk assessment and setting a threshold for the amount of transactions, by utilizing IT systems, etc. according to the scale of its business scale, etc.

- (Notes) i. In establishing a monitoring system using IT systems, in order to detect high-risk transactions, it is necessary to verify the effectiveness of such monitoring periodically, while data such as customer information, transaction records, and confirmation records are collected appropriately.

 - ii. On the occasion of verifying the effectiveness of monitoring, it is important to improve the monitoring system on currency exchange transactions. At the same time, the operators refer to information obtained through transactions other than currency exchange transactions and determine whether there is missing information to be monitored.

(3) Other

The specified business operator needs to appoint a director in charge or manager who is responsible for fulfilling the suspicious transaction reporting obligation (hereinafter referred to as a "suspicious transaction report administrator"). In addition, the specified business operator needs to develop an environment in which a suspicious transaction report administrator coordinates among related divisions and branches, including the compliance control division, operational divisions, administrative divisions, and sales offices, to comply with the provisions of the Criminal Proceeds Act and its regulations related to the suspicious transaction reporting obligation without fail.

In that process, the specified business operator must endeavor to reinforce the environment for preventing money laundering, etc., by utilizing the analysis results of the risk it has specified or assessed based on "assessment records", etc. in considering filing suspicious transaction reports.

(Note) Even if a specified business operator has not appointed a responsible person by specifying compliance with the Criminal Proceeds Act and its regulations related to the suspicious transaction reporting obligation, the specified business operator is required to take actions for complying with the provisions of the Criminal Proceeds Act and its regulations related to the suspicious transaction reporting obligation without fail, while keeping the following points in mind.

- (i) It should be made clear from the corporate post of a director in charge or manager that the person is responsible for compliance with the Criminal Proceeds Act and its regulations related to the suspicious transaction reporting obligation.
- (ii) The relevant director in charge or manager should actually coordinate among related divisions and branches and take measures to develop an environment to comply with the Criminal Proceeds Act and its regulations related to the suspicious transaction reporting obligation.

5-2 Fulfillment of the suspicious transaction reporting obligation

(1) Suspicious transaction reporting

The specified business operator must conduct suspicious transaction reporting pertaining to the currency exchange business based on the provisions of the Criminal Proceeds Act and its regulations related to the suspicious transaction reporting obligation without fail. Meanwhile, the specified business operator needs to particularly keep the following points in mind in filing a suspicious transaction report.

- (i) The specified business operator is to promptly file a suspicious transaction report for transactions which it has determined to constitute suspicious transactions in comprehensive consideration of the transactions that constitute the “reference cases of suspicious transactions”, the circumstances at the time of the transactions, and other specific information which the specified business operator has. In addition, it is important for the specified business operator to develop the following management to conduct suspicious transaction reporting without fail.
- i. Suspicious transaction reporting is not restricted by the transaction amount. Also, there are cases where a transaction is determined to constitute a suspicious transaction in consideration of the status of past currency exchange transactions as well as the transaction amount. Therefore, in order for a specified business operator to conduct suspicious transaction reporting without fail, it needs to ask customers to cooperatively report their names and information that contributes to identifying the customers, even when conducting a currency exchange transaction for an amount not subject to verification at the time of transaction, in addition to conducting verification at the time of transaction for customers pertaining to currency exchange transactions over two million yen and transactions requiring special attention. Moreover, if it is determined from the information obtained that the transaction falls under special attention in light of customer due diligence, it is necessary to consider whether there are suspicious points by confirming the source of the transaction in addition to the verification at the time of transaction.
 - ii. The specified business operator must determine whether a transaction with a customer constitutes a suspicious transaction by confirming whether there are any suspicious points in the transaction according to the items prescribed in the Criminal Proceeds Act and its regulations, while taking into account “reference cases of suspicious transactions”, the circumstances at the time of the transaction, and other specific information which the specified business operator has. (Articles 26 and 27 of the Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds)
 - iii. If the specified business operator detects a transaction for which it is impossible to determine whether it is necessary to file a suspicious transaction report as a result of ii. above, it needs to confirm the information that is necessary for determining whether the relevant transaction constitutes a suspicious transaction. In addition, if the

specified business operator determines that the transaction does not constitute a suspicious transaction, it must endeavor to prepare a record pertaining to the confirmed information and the analysis results, etc. based on that information, and preserve it together with the record of verification at the time of transaction or the transaction record, etc. (Article 32, paragraph (1) of the Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds)

- (ii) If the specified business operator has outsourced part of administrative work pertaining to currency exchange conducted with customers to another person (hereinafter referred to as "trustee"), the entruster itself needs to confirm and determine whether an individual transaction constitutes a suspicious transaction in an appropriate manner.

In addition, the specified business operator needs to conclude an agreement, etc. with the trustee who enables the specified business operator to acquire information that is necessary to fulfill the suspicious transaction reporting obligation, under the recognition that the specified business operator, which is the entruster, is a party to the transaction, and needs to monitor the status of response taken by the trustee in relation to the suspicious transaction reporting on a regular basis.

Meanwhile, it is important to include the results of monitoring the trustee in the 'assessment records' etc. of the outsourcer, and to implement risk mitigation measures after determining the measures that should be taken.

(2) Identification of the status of fulfillment of the suspicious transaction reporting obligation

- (i) The suspicious transaction report administrator is required to receive reports on the existence of suspicious transactions from related divisions and branches on an as needed basis and thereby accurately identify the status of response by the divisions and branches.
- (ii) The suspicious transaction report administrator needs to verify the effectiveness of administrative procedures and organizational frameworks intended to comply with the Criminal Proceeds Act and its regulations related to suspicious transaction reporting in a timely and appropriate manner and review them if necessary.
- (iii) The suspicious transaction report administrator needs to report the status of compliance with the Criminal Proceeds Act and its regulations related to suspicious transaction reporting to the board of directors, etc. on an as needed basis. The board of directors, etc. needs to carry out appropriate decision-making concerning the development of management for complying

with the Criminal Proceeds Act and its regulations related to suspicious transaction reporting based on the report.

(3) Other

- (i) Specified business operator's duty of confidentiality pertaining to suspicious transaction reporting

The officers and employees of the specified business operator must not leak the fact that the specified business operator intends to file or has filed a suspicious transaction report, to the customer, etc. pertaining to the suspicious transaction report or persons involved therein.

- (ii) Response to transactions that are considered to involve high risks

With regard to transactions that are considered to involve high risks, such as high-risk transactions and transactions requiring special attention, a suspicious transaction report administrator or a person entrusted thereby must endeavor to confirm and determine whether the transactions constitute suspicious transactions, give approval for execution of the transactions, and maintain the records of the content of the confirmation and determination as well as the approval for execution of the transactions.

6. Items concerning compliance with the Criminal Proceeds Act and its regulations pertaining to the notification obligation in foreign exchange transactions

6-1 Internal control to fulfill the notification obligation pertaining to foreign exchange transactions

- (1) Positioning of compliance with the Criminal Proceeds Act and its regulations in the legal compliance management

The specified business operator needs to develop management to comply with the Criminal Proceeds Act and its regulations (in relation to the notification obligation pertaining to foreign exchange transactions) within the framework of the legal compliance management, based on "1. Items concerning the internal control for compliance with the Foreign Exchange Act and its regulations, etc."

- (2) Positioning of compliance with the Criminal Proceeds Act and its regulations in the risk management environment

The specified business operator needs to develop a management system to comply with the Criminal Proceeds Act and its regulations (in relation to the notification obligation pertaining to foreign exchange transactions) within the framework of the risk control, based on "1. Items concerning the internal control for compliance with the Foreign Exchange Act and its regulations, etc." In addition, the specified business operator needs to keep the following points in mind in particular in developing its management.

- (i) The provisions on administrative work related to remittance from Japan to a foreign state should provide for the administrative procedures for accurately making notification of the customer identification data pertaining to customers and other matters, as required by Article 10 of the Criminal Proceeds Transfer Prevention Act.

(Note) Even if the aforementioned administrative procedures are not provided for, a specified business operator needs to have substantial management to accurately make a notification of the customer identification data pertaining to customers and other matters.

- (ii) It is indispensable for a specified business operator to precisely notify customer's identification data and other information to a beneficiary financial institution so that the beneficiary financial institution (includes intermediate banks; the same applies hereinafter) can recognize risks related to foreign exchange transactions appropriately. In addition, management of the customer's identification and others should also be developed to fulfil the notification obligation based on international standards.

(Note) i Regarding customer identification data and other items, it should be noted that the name, account number or transaction reference number, includes information ascertained by 2-7 (1) (i) i (Note) B. as well as C.

ii The beneficiary financial institution is required to take measures according to the risk of the transaction based on the international standard, in the case of SWIFT related to foreign exchange transactions received from sending financial institutions, with lacking some information regarding the remitter or recipient.

(3) Other

The specified business operator needs to appoint a director in charge or manager who is responsible for fulfilling the notification obligation pertaining to foreign exchange transactions (hereinafter referred to as "foreign exchange transaction notification administrator"). In addition, the specified business operator needs to develop an environment in which a foreign exchange transaction notification administrator coordinates among related divisions and branches, including the compliance control division, operational divisions, administrative divisions, and sales offices, to comply with the provisions of the Criminal Proceeds Act and its regulations related to the notification obligation pertaining to foreign exchange transactions without fail.

(Note) Even if a specified business operator has not appointed a responsible person related to the notification obligation pertaining to foreign exchange transactions, the specified business operator is required to take actions for complying with the Criminal Proceeds Act and its regulations (in relation to the notification obligation pertaining to foreign exchange transactions) without fail, while keeping the following points in mind.

- (i) It should be made clear from the corporate post of a director in charge or manager that the person is responsible for compliance with the Criminal Proceeds Act and its regulations related to the notification obligation pertaining to foreign exchange transactions.
- (ii) The relevant director in charge or manager should actually coordinate among related divisions and branches and take measures to develop an environment to comply with the Criminal Proceeds Act and its regulations related to the notification obligation pertaining to foreign exchange transactions.

6-2 Fulfillment of the notification obligation pertaining to foreign exchange transactions

(1) Notification of customer identification data, etc. pertaining to foreign exchange transactions

The specified business operator must give notifications pertaining to foreign exchange transactions based on the provisions of the Criminal Proceeds Act and its regulations related to the notification obligation pertaining to foreign exchange transactions while keeping the following points in mind.

- (i) The sales department of the specified business operator which receives requests for foreign exchange transactions from customers is to identify the matters to be notified in an appropriate manner by methods such as by requesting customers to complete foreign remittance request forms. In addition, the administrative division which carries out remittance work pertaining to foreign exchange transactions is to accurately make notification of the customer identification data, etc. of customers, which the sales department has identified, based on the administrative procedures set forth in 6-1 (2) above.

(Note) It is necessary to make notification of the name of a customer even where the customer uses a name that is different from the customer's own name.

In addition, if a specified business operator has come to know that there has been any change in the customer identification data of a customer subject to notification whose verification at the time of transaction has been obtained in a foreign exchange transaction with the customer, the specified business operator needs to make notification of the customer identification data after the change in conducting subsequent foreign exchange transactions.

- (ii) If the specified business operator conducts foreign exchange transactions by outsourcing administrative work pertaining to the notification of customer identification data, etc. to another financial institution, etc. (outsourcing contract for transmission work, including SWIFT), it needs to conclude an agreement, etc. that enables the specified business operator to fulfill the notification obligation without fail with the trustee, under the recognition that the specified business operator, which conducts foreign exchange transactions with customers, undertakes the notification obligation, and confirm the status of notification by the trustee in an appropriate manner based on that agreement, etc.

(Note) Examples of methods of confirming the status of fulfillment of the notification obligation by a trustee are as follows.

- (i) By receiving the delivery of transmitted information pertaining to the notification of customer identification data, etc., including SWIFT, from the trustee
- (ii) By regularly monitoring the status of notification by the trustee

<Remarks>

"Outsourcing contract for transmission work, including SWIFT" is a contract which is concluded to outsource only outgoing transmission work for foreign exchange transactions, for which a specified business operator has received a request from customers, to another financial institution, etc. (trustee) and refers to cases where the trustee does not become a party to the relevant exchange transactions.

- (iii) If the specified business operator receives a remittance request from a customer for whom another financial institution, etc. acts as an intermediary, it needs to conclude an agreement, etc. that enables it to acquire information that is necessary to fulfill the notification obligation without fail, under the recognition that the specified business operator undertakes the notification obligation, and also regularly monitor the status of identification of customer identification data by the other financial institution, etc. based on that agreement, etc.

<Remarks>

"Intermediating" refers to cases where another person who receives a remittance request from a customer does not become a party to exchange transactions pertaining to the remittance request, for example, where remittance request forms of a specified business operator are placed at the counter, etc. of the other person to enable the other person to receive remittance requests to the specified business operator from customers.

(2) Clarification of matters to be notified in requesting an intermediary bank to prepare/transmit a SWIFT message

If the specified business operator which has received a remittance request from a customer (sending bank) requests another specified business operator (intermediate bank) to prepare and transmit a SWIFT message, the sending bank must present accurate matters to be notified to the intermediate bank so as to prevent the intermediate bank which has received the request from making notification of false matters. In addition, the intermediate bank is required to collaborate with the sending bank in order to prepare an accurate message when preparing a SWIFT message.

(3) Record and preservation of matters to be notified

The specified business operator must preserve a record pertaining to matters to be notified in an appropriate manner in accordance with the provisions of the Criminal Proceeds Act and its regulations.

(Note) If an outsourcing contract for transmission work, including SWIFT, referred to in (1), (ii) above includes the recording and preservation of matters to be notified, matters concerning preservation of matters to be notified must be included in the relevant agreement, etc., and the specified business operator needs to regularly monitor the status of preservation of matters to be notified by the trustee.

(4) Capturing of the status of fulfillment of the notification obligation pertaining to foreign exchange transactions

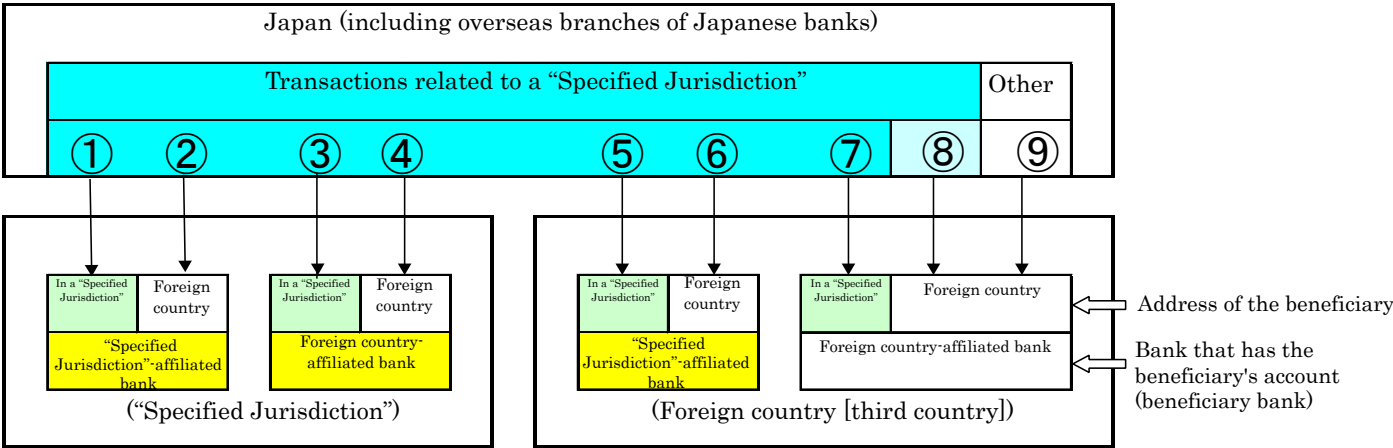
- (i) A foreign exchange transaction notification administrator is required to accurately identify the status of fulfillment of the notification obligation pertaining to foreign exchange transactions.
- (ii) The foreign exchange transaction notification administrator needs to verify the effectiveness of administrative procedures and organizational frameworks intended to comply with the Criminal Proceeds Act and its regulations related to the notification obligation pertaining to foreign exchange transactions in a timely and appropriate manner and review them if necessary.

- (iii) The foreign exchange transaction notification administrator needs to report the status of compliance with the Criminal Proceeds Act and its regulations related to the notification obligation pertaining to foreign exchange transactions to the board of directors, etc. if necessary. The board of directors, etc. needs to carry out appropriate decision-making concerning matters such as the management development for complying with the Criminal Proceeds Act and its regulations related to the notification obligation pertaining to foreign exchange transactions based on the report.

Chapter 3. Reference Materials

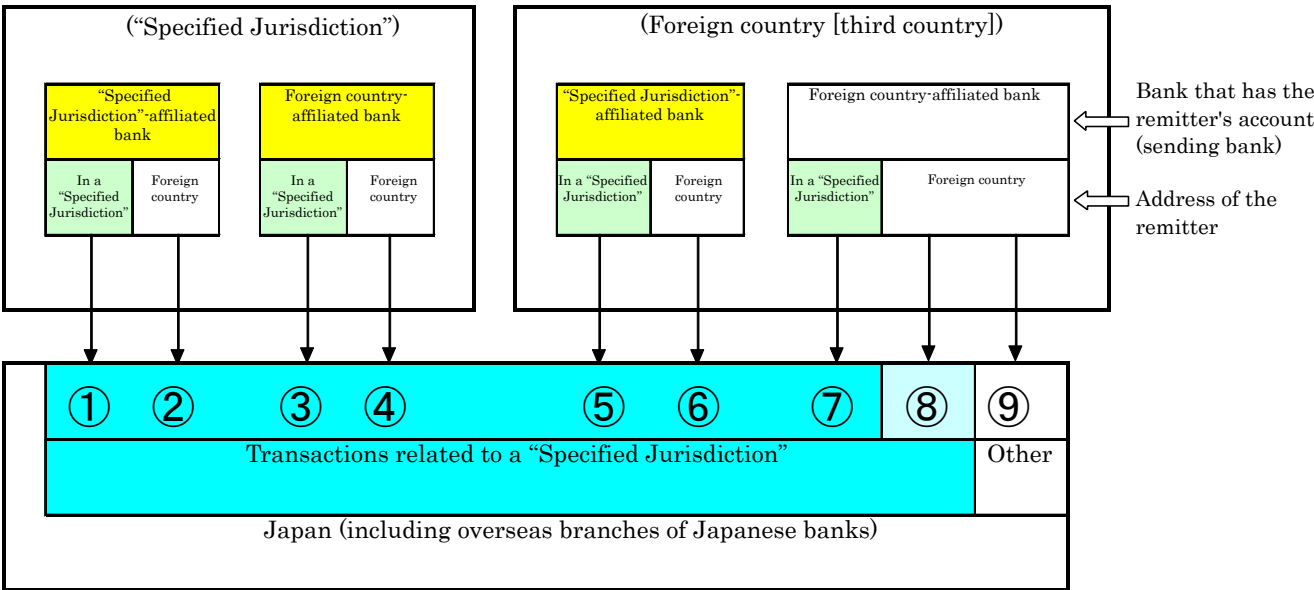
1. Conceptual diagram of transactions related to a “Specified Jurisdiction” (outgoing remittances/incoming remittances)

(1) Outgoing remittances



- (Notes) 1. "Transactions that are obviously related to a 'Specified Jurisdiction'" are outgoing remittances that come under any of (i) through (vii).
2. "Transactions suspected of being related to a 'Specified Jurisdiction'" are outgoing remittances that come under (viii), which are recognized as involving the risk of being conducted via a third country, such as the case in which the purpose of transaction (name of goods) or the name of a city related to a "Specified Jurisdiction" is included in the transaction-related documents.

(2) Incoming remittances



- (Notes) 1. "Transactions that are obviously related to a 'Specified Jurisdiction'" are incoming remittances that come under any of (i) through (vii).
2. "Transactions suspected of being related to a 'Specified Jurisdiction'" are incoming remittances that come under (viii), which are recognized as involving the risk of having been conducted via a third country, such as the case in which the purpose of transaction (name of goods) or the name of a city related to a "Specified Jurisdiction" is included in the SWIFT messages, etc.

2. Matters to keep in mind concerning the Act on Prevention of Transfer of Criminal Proceeds

This consideration point indicates the matters that should be kept in mind when a person who conducts currency exchange business (hereinafter referred to as "CEO") set forth in Article 2, paragraph (2), item (xxxviii) of the Act on Prevention of Transfer of Criminal Proceeds (hereinafter referred to as the "Criminal Proceeds Act") fulfills obligations including the obligation of the identification and verification at the time of transaction, etc. prescribed in Article 4 of the Criminal Proceeds Act and the reporting suspicious transactions, etc. obligation prescribed in Article 8 of the Criminal Proceeds Act, etc.

Meanwhile, this material does not preclude a person from handling matters differently from those indicated herein within the scope of laws and regulations, etc., according to individual circumstances.

(1) Types of purposes of conducting a transaction

The following table shows examples of types which should be referred to when a CEO conducts verification of the "purpose and intended nature of conducting a transaction" in relation to a transaction set forth in Article 7, paragraph (1), item (i), (z) of the Order for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds (hereinafter referred to as the "Enforcement Order") pursuant to Article 4, paragraph (1) or (2) of the Act (multiple selection allowed).

As these types are mere examples, there is no harm in each CEO conducting verification of the purpose and intended nature of conducting a transaction based on types that are different from those indicated below according to the content of the transaction and the actual conditions of individual operations and transactions, etc. while referring to these types.

Currency exchange business

Natural person	Legal person / association or foundation without juridical personality
<input type="checkbox"/> Funds related to travel/business trip <input type="checkbox"/> Expenses for studying abroad	<input type="checkbox"/> Funds related to travel/business trip <input type="checkbox"/> Funds for settlement funds

<input type="checkbox"/> Foreign currency asset management	<input type="checkbox"/> Expenses for paying wages
<input type="checkbox"/> Funds for settlement	<input type="checkbox"/> Foreign currency asset management
<input type="checkbox"/> Other ()	<input type="checkbox"/> Other ()

(2) Types of occupations and contents of business

The following table shows examples of types which should be referred to when a CEO conducts verification of the "occupation" or "contents of business" pursuant to Article 4, paragraph (1) or (2) of the Act (multiple selection allowed).

As these types are mere examples, there is no harm in each CEO conducting verification of the occupation or contents of business based on types that are different from those indicated below according to the actual conditions of individual operations and transactions, etc. while referring to these types.

Occupation/contents of business

Occupation (Natural person)	Contents of business (Legal person / association or foundation without juridical personality)
<input type="checkbox"/> Corporate officer / officer of a body <input type="checkbox"/> Company employee / employee of a body <input type="checkbox"/> Public employee <input type="checkbox"/> Sole proprietor / self-owned business <input type="checkbox"/> Part-timer / dispatched employee / contract employee <input type="checkbox"/> Homemaker <input type="checkbox"/> Student <input type="checkbox"/> Retired / unemployed person <input type="checkbox"/> Other ()	<input type="checkbox"/> Agriculture / forestry /fishery <input type="checkbox"/> Manufacturing business <input type="checkbox"/> Construction business <input type="checkbox"/> Information and telecommunications business <input type="checkbox"/> Transport business <input type="checkbox"/> Wholesale / retail business <input type="checkbox"/> Financial / insurance business <input type="checkbox"/> Real estate business <input type="checkbox"/> Service business <input type="checkbox"/> Other ()

(3) Measures to appropriately conduct the identification and verification at the time of transaction, preservation of transaction records, etc., and suspicious transaction reporting, etc.

The following shows examples of actions that each CEO is required to take as "measures to appropriately conduct verification at the time of transaction,

preservation of transaction records, etc., and suspicious transaction reporting, etc." prescribed in Article 11 of the Act with the aim of further assuring measures against money laundering, etc. taken by Japanese CEOs in light of international demand for measures against money laundering, etc.

As these measures are mere examples, it should be kept in mind that each CEO must endeavor to take more appropriate measures, according to the actual conditions of individual operations and transactions and the degree of the risk of being used for money laundering, etc. while referring to these measures, in order to mitigate the risks it has specified and assessed.

- (i) Measures for transactions conducted with a customer, etc. prior to completion of verification at the time of transaction

CEOs have to pay sufficient attention to transactions conducted with a customer, etc. prior to completion of verification at the time of transaction in light of the fact that a relevant transaction may be used for money laundering, etc. during the period before completion of the verification at the time of transaction. For example, CEOs should impose more limitations on the whole or part of the transaction than ordinary transactions or record information concerning the customer, etc.

- (ii) Measures for currency exchange transactions which amount to two million yen or less

CEOs have to also pay sufficient attention to currency exchange transactions which amount to two million yen or less in light of the fact that a transaction amounting to slightly below two million yen or a transaction intentionally divided to reduce the amount of each transaction to two million yen or less has the risk of being used for money laundering, etc., and are to take appropriate actions if they determine that the transaction is subject to the "divided transaction, etc." prescribed in Article 7, paragraph (3) of the Enforcement Order. Meanwhile, a CEO is required to take measures to accurately detect divided transactions, etc. by, for example, if the CEO conducts currency exchange transactions at several branches, etc., sharing with relevant executives and employees the customer information identified at each branch, etc. and the content of transactions with the customers.

- (iii) Measures for non-face-to-face transactions

CEOs have to pay sufficient attention to non-face-to-face transactions in light of the fact that such transactions have the risk of being used for money laundering such as disguising or giving false transaction. For example, the operators should conduct transaction verification regardless of transaction amount, confirm other identity verification documents and documents other than identity verification document, in addition to normal customer identification, and issue ID and password known only to customers etc.,

transaction amount. In addition, setting an upper limit on the number of transactions, and continuously monitoring the frequency of transactions and the IP addresses of customers would be also included.

(iv) Measures for face-to-face transactions

CEOs have to also pay sufficient attention to face-to-face transactions in light of the fact that, in a transaction in which identification documents with no photograph attached are used in the identification and verification at the time of transaction, the customer, etc. of the transaction suspected of disguising or giving false information, etc.

(v) Continuous monitoring of customers, etc.

In addition to the above, CEOs have to continuously monitor information of individual customers and the content of transactions conducted by the customers, in order to accurately determine whether a transaction is suspected of being a high-risk transaction, such as where the customer, etc. gives false information concerning matters subject to the identification and verification at the time of transaction that has already been verified (for example, by declaring a false purpose of transaction to conceal its actual purpose of money laundering). Meanwhile, CEOs are required to utilize the matters subject to the identification and verification at the time of transaction, which have continuously been updated on the premise of their risk as specified and assessed based on “assessment records”, etc., and to conduct enhanced customer due diligence that have been determined to involve high risk.