

**Collection of Defects Pointed out in Foreign Exchange
Inspections**

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Contents

Objective of Collection of Defects Pointed Out in Foreign Exchange Inspections	1
I. Defects related to internal control system	1
1. Status of development of a system to check whether the compliance system is functioning.....	1
2. Status of development of provisions	2
3. Obligation to report.....	2
II. Defects related to economic sanctions such as asset freeze	2
1. Developing a list of sanctions targets.....	2
2. Management of deposit account names.....	3
3. Checking existing deposit accounts	3
(1) Scope of deposit accounts subject to checking.....	3
(2) Checking criteria	4
(3) Response to finding similar names, etc.	5
4. Confirmation at the time of opening of new deposit accounts.....	5
5. Response to payment regulations on sanctions targets.....	6
(1) Key points for operating an Automatic Checking System.....	6
(2) How to handle institutions using no Automatic Checking System.....	6
6. Response to regulations on trade-related payment.....	7
(1) Understanding of remittance information	7
(2) Careful checking.....	8
7. Response to the Regulations on the Purpose of Use of Funds	9
(1) Understanding of remittance information.....	9
(2) Careful checking.....	9
(3) Confirming the presence or absence of words related to the Regulations on the Purpose of Use of Funds	10
(4) Automatic remittances.....	11
8. Record of the results of checking.....	12
9. Response to economic sanctions such as asset freeze at overseas branches of Japanese banks	13
III. Financial institutions' obligation to identify customers	13
IV. Defects Related to Obligation to Give Notification of Suspicious Transactions, etc. Pertaining to Currency Exchange Business.....	14
V. Defects related to the notification obligation pertaining to foreign exchange transactions.....	14
1. Notification of Identification Data, etc. Pertaining to Foreign Exchange Transactions.....	14
2. Clarification of Matters to Notify in Requesting an Intermediate Bank to Prepare/Transmit a SWIFT Telegram.....	15

Abbreviations of laws and regulations

In this report, the following laws and regulations are abbreviated as follows:

Foreign Exchange and Foreign Trade Act: Foreign Exchange Act

Act on Prevention of Transfer of Criminal Proceeds: Criminal Proceeds Act

Act on Financial Settlement: Payment Services Act

Foreign Exchange Inspection Manual: Inspection Manual

This English translation is as unofficial translation and to be used solely as reference material to aid in the understanding of the Collection of Defects Pointed out in Foreign Exchange Inspections.

The government of Japan will not be responsible for any consequence resulting from use of this translation.

Collection of Defects Pointed out in Foreign Exchange Inspections

Objective of Collection of Defects Pointed Out in Foreign Exchange Inspections

The Collection of Defects Pointed out in Foreign Exchange Inspections covers major defects pointed out in Foreign Exchange Inspections on financial institutions regarding the status of their compliance with the Foreign Exchange Act and the Criminal Proceeds Act. Its objective is to provide reference materials for financial institutions' expansion and enhancement of their internal control systems for compliance with the Foreign Exchange Act, etc.

Since the publication of the previous Collection (in June 2009), the Foreign Exchange Inspection Manual has been revised as necessary in response to the introduction (in July 2009) and the expansion (in August 2010) of the Regulations on the Purpose of Use of Funds regarding North Korea and Iran and fund transfer specialists' participation in overseas remittance services through the implementation of the Payment Services Act (in April 2010). This Collection publishes major defects pointed out in Foreign Exchange Inspections conducted between July 2008 and June 2012.

I. Defects related to internal control system

1. Status of development of a system to check whether the compliance system is functioning

[See I.3.3-2 of the Inspection Manual (Attachment 1) and 1.3. (Attachment 2)]

The Inspection Manual requires any financial institution to develop a system for its Asset Freeze Administrator to analyze the cause of any violation of any provision of the Foreign Exchange Act., etc. and coordinate between the Compliance Control Division, operational divisions, administrative divisions and sales branches and take measures for preventing the recurrence of such violation to comply with the provisions of foreign exchange laws and regulations related to economic sanctions such as asset freeze without fail.

Matters pointed out in inspections

- ① A financial institution failed to improve defects pointed out in the previous inspection regarding response to economic sanctions such as asset freeze. Its Asset Freeze Administrator's coordination between relevant divisions and the development of frameworks for compliance with foreign exchange laws were insufficient.
- ② When those subject to economic sanctions such as asset freeze (hereinafter referred to as "sanctions targets") were expanded or changed through addition or any other measure by public notices from the Ministry of Foreign Affairs, a financial institution failed to immediately check existing deposit accounts due to lack of coordination between the Compliance Control Division and a division in charge of checking, indicating its insufficient development of a system to comply with the provisions of foreign exchange laws and regulations related to economic

sanctions such as asset freeze without fail.

2. Status of development of provisions

[See 1.2. of the Inspection Manual (Attachment 1) and 1.2. of the Inspection Manual (Attachment 2)]

Any financial institution is required to provide a specific procedure in line with foreign exchange laws and regulations to comply with foreign exchange laws and regulations related to economic sanctions such as asset freeze. Such institution is also required to revise provisions on administrative work in accordance with changes, etc. to economic sanctions such as asset freeze.

Matters pointed out in inspections

- ① A financial institution failed to develop some provisions on administrative work for economic sanctions such as asset freeze. (As a result, those in charge of the economic sanctions had insufficient understanding about administrative work for economic sanctions such as asset freeze, falling short of appropriately fulfilling the confirmation obligation by banks, etc. based on Article 17 of the Foreign Exchange Act.)
- ② A financial institution failed to revise its provisions on administrative work despite the enhancement of Regulations on the Purpose of Use of Funds regarding Iran in August 2010.

3. Obligation to report

[See I. 2. (2) of the Inspection Manual (Attachment 1)]

The Inspection Manual requires any financial institution to position provisions on the obligation to report prescribed in Chapter 6-2 of the Foreign Exchange Act as part of laws and regulations that must be complied with in the Compliance Manual.

Matters pointed out in inspections

A special report on the status of fulfillment of the confirmation obligation regarding payments to and receipts of payments from Iran failed to include some transactions for receipts of payments from Iran to Japan.

II. Defects related to economic sanctions such as asset freeze

1. Developing a list of sanctions targets

[See II. 1. (2) of the Inspection Manual (Attachment 2)]

When sanctions targets are expanded or changed through addition or any other measure by public notices from the Ministry of Foreign Affairs, any financial institution is required to update their list of sanctions targets containing information such as the names, addresses, etc. of sanctions targets and make the updated list available for the Sales Division and sales branches engaged in deposit transactions, remittance services, etc. to confirm whether transactions are with sanctions targets or not. The list of sanctions targets must accurately record the content of a public notice, including the names (including aliases) and addresses of sanctions targets, and be searchable through an electromagnetic means.

Matters pointed out in inspections

A financial institution used a list of sanctions targets lacking aliases of sanctions targets, targets for Japan's exclusive sanctions, etc., failing to appropriately confirm whether some transactions were with sanctions targets or not.

2. Management of deposit account names

[See II. 2. of the Inspection Manual (Attachment 2)]

The Inspection Manual requires any financial institution to register deposit account names in the Latin Alphabet with an information system, etc. based on identification documents if the names are of those who can clearly be determined as foreign nationals based on identification documents.

To this end, any such institution is required to register all words written as names in identification documents without omitting any of these words.

Matters pointed out in inspections

In managing deposit accounts, a financial institution omitted some of words constituting deposit account names of foreign nationals, etc. in cases where it is recognized as appropriate to manage deposit accounts using names written in the Latin Alphabet.

3. Checking existing deposit accounts

(1) Scope of deposit accounts subject to checking

[See II. 3. (2) ① of the Inspection Manual (Attachment 2)]

It is necessary to keep in mind that deposit accounts to be checked include accounts of foreign nationals as residents in addition to non-residents. This is to confirm that those subject to economic sanctions such as asset freeze do not creep into residents' deposit accounts managed by a financial

institution, from the perspective of ensuring the secure implementation of economic sanctions such as asset freeze. It is necessary to include the deposit accounts of persons for whom it is difficult to accurately manage the residential status, such as foreign nationals, into the scope of deposit accounts to be checked.

Matters pointed out in inspections

In extracting deposit accounts of foreign nationals from all accounts when checking existing deposit accounts, a financial institution selected only customers identified through foreign resident registration cards and excluded foreign nationals identified through other identification documents, failing to check some deposit accounts opened under the names of foreign nationals.

(2) Checking criteria

[See II. 3. (2) ③ of the Inspection Manual (Attachment 2)]

The Inspection Manual requires that in order to appropriately check existing deposit accounts, financial institutions use names (including aliases) written not only in the Japanese kana but also in the Latin Alphabet for checking deposit accounts not by searching exact-match names but by first extracting similar deposit account names through search by each word and then narrowing down extensive candidates one by one.

Matters pointed out in inspections

- ① In checking existing deposit accounts when information on additional sanctions targets included birth dates, a financial institution first used birth dates for checking and extracting accounts and checked names of only persons meeting the birth date data, failing to find accounts opened under the same names as those of additional sanctions targets.
- ② In checking existing deposit accounts, a financial institution searched accounts by the first word of each sanctions target's name and by exact name match.
- ③ In checking existing deposit accounts, a financial institution checked only names written in the Japanese kana despite the fact that customers' names written in the Latin Alphabet had been registered.
- ④ In checking existing deposit accounts, a financial institution failed to search accounts by alias of any sanctions target.
- ⑤ In checking existing deposit accounts, a financial institution used multiple columns for managing customer names and checked only part of the columns, failing to find deposit accounts opened under the same names as those of sanctions targets.

(3) Response to finding similar names, etc.

[See II. 3. (2) ④ of the Inspection Manual (Attachment 2)]

When having found deposit account names that are the same as or similar to the names of those subject to economic sanctions such as asset freeze, a financial institution must make a final judgment on whether a depositor is an individual/group subject to economic sanctions such as asset freeze, based on a record of identity confirmation, etc. at the time of opening of the deposit account and the status of depositing and withdrawal, etc.

In making such a judgment, where it is not clear whether the depositor falls under those subject to economic sanctions such as asset freeze, such institution must manage the deposit account separately from ordinary deposit accounts and determine whether the depositor falls under those subject to economic sanctions such as asset freeze by newly acquiring detailed information about the depositor through opportunities to contact the depositor, such as the time of depositing or withdrawal.

Matters pointed out in inspections

As for deposit accounts extracted as those opened under names similar to those of sanctions targets, a financial institution failed to use more detailed information, including records of identity information given at the time of opening of the accounts and deposit/withdrawal data, for confirming whether the names were of sanctions targets or not.

4. Confirmation at the time of opening of new deposit accounts

[See II. 3. (3) of the Inspection Manual (Attachment 2)]

The Inspection Manual requires that in opening a new deposit account pertaining to a non-resident or a customer with a foreign national name, a financial institution check whether the non-resident or the customer with a foreign national name is subject to economic sanctions such as asset freeze through measures such as first extracting similar names through search by each word and then narrowing down extensive candidates one by one.

Matters pointed out in inspections

- ① When new deposit accounts were opened under the names of foreign nationals (including those from regions using Japanese kanji), a financial institution failed to confirm whether those foreign nationals were sanctions targets or not.
- ② When new deposit accounts were opened under the names of foreign nationals, a financial institution searched the list of sanctions targets only by the first word of each customer name and by exact name match to confirm whether those opening new accounts were sanctions

targets or not.

- ③ When new deposit accounts were opened under the names of foreign nationals, a financial institution checked only names written in the Japanese kana and failed to check names written in the Latin Alphabet, despite the fact that those foreign nationals' identity confirmation documents specified names written in the Latin Alphabet.

(Note) When it is difficult to acquire foreign nationals' names written in the Latin Alphabet in the absence of Latin-Alphabet names in their identity confirmation documents, a financial institution may use only names written in the Japanese kana for checking names.

5. Response to payment regulations on sanctions targets

(1) Key points for operating an Automatic Checking System

[See II. 7. (1) ② of the Inspection Manual (Attachment 2)]

The Inspection Manual requires that any remittance handling financial institution, etc. using an automatic check system conduct management, such as adjustment of settings of the system, to make it possible to appropriately confirm that a remittance is not to a person subject to economic sanctions such as asset freeze, in consideration of the functions and characteristics of the system.

Matters pointed out in inspections

- ① A financial institution used an Automatic Checking System for search only by the first word of each remittance receiver's name, failing to narrow down extensive candidates one by one.
- ② A financial institution commissioned another party to confirm whether remittances are destined to sanctions targets or not, while failing to understand that the party's Automatic Checking System was designed for search only by exact name match.

(2) How to handle institutions using no Automatic Checking System

[See II. 7. (1) ② of the Inspection Manual (Attachment 2)]

A financial institution that has not introduced an Automatic Checking System may use a list of sanctions targets to manually confirm whether a remitter or a remittance receiver is a sanctions target or not. The Inspection Manual requires that a Sales Division or branch official accepting a remittance request from a customer and an official of a division in charge of remittance at such institution conduct a double check from the viewpoint of administrative risk management.

If another remittance handling financial institution conducts confirmation using an Automatic Checking System, the remittance sending bank obliged to conduct confirmation as requested by a

customer may lead either a Sales Division or branch official accepting a remittance request from a customer or an official of a division in charge of remittance to conduct such confirmation, according to the Inspection Manual.

Matters pointed out in inspections

- ① Despite the absence of an Automatic Checking System, only either a Sales Division or branch official accepting a remittance request from a customer or an official of a division in charge of remittance conducted confirmation.
- ② In settling an import with a documentary bill of exchange without a letter of credit, a financial institution failed to confirm whether the overseas remittance receiver for the deal (exporter) was a sanctions target or not.

(Note) As for settlements with documentary bills of exchange without letters of credit, SWIFT telegrams frequently fail to include information such as the names of remittance receivers. In such case, a relevant administrator at a Japanese bank is required to use a list of sanctions targets to confirm whether an overseas remittance receiver's name is that of any sanctions target on such occasions as the arrival of shipping documents at the bank.

6. Response to regulations on trade-related payment

(1) Understanding of remittance information[See II. 7. (1) in the Inspection Manual (Attachment 2)]

The Inspection Manual requires that any financial institution, in making a remittance of import payment where regulations on trade-related payment are in force, understand (through the report by the customer or any other means) information necessary to confirm that a remittance is not an outgoing remittance subject to economic sanctions such as asset freeze (hereinafter referred to as “necessary information”), including the country of destination, the purpose of remittance, the place of origin of import cargo, and the region of shipment, in consideration of the particularity of the regulations on trade-related payment.

When a financial institution gives a customer an explanation on the regulations on trade-related payment and the customer makes a report to the effect that the remittance is not related to the regulations, a financial institution shall be deemed to have understood the necessary information.

Matters pointed out in inspections

- ① A financial institution failed to confirm the place of origin of import cargo and the region of shipment pertaining to a remittance of import payment as it lacked internal provisions on administrative work pertaining to response to regulations on trade-related payment and its officials in charge of the response had no sufficient understanding on the response.

② Due to a misunderstanding that the place of origin of import cargo and the region of shipment should be confirmed only when a remittance destination is a country neighboring North Korea subject to the regulations on trade-related payment, a financial institution failed to confirm the place of origin of import cargo or the region of shipment pertaining to a remittance to any other country.

(2) Careful checking

[See II. 7. (1) of the Inspection Manual (Attachment 2)]

The Inspection Manual requires that Where There Is a Doubt about the Truth of the Necessary Information obtained from a customer or where careful checking is recognized as necessary as a remittance could violate the regulations on trade-related payment (hereinafter referred to as “Where There Is a Doubt about the Truth of the Necessary Information”), a financial institution requests the customer to present materials that give reasons for the remittance, such as a sales contract, an import permit and a bill of lading.

As cases Where There Is a Doubt about the Truth of the Necessary Information, the Inspection Manual cites an outgoing remittance for which the name of a good or the name of a country/region/city, which is suspected of being related to the regulations on trade-related payment, is stated in the content of the remittance of a customer and an outgoing remittance which is suspected of being related to the regulations on trade-related payment in light of the status of past transactions of a customer.

Matters pointed out in inspections

- ① A financial institution failed to conduct careful checking although a remittance of import payment specified the name of a good that was suspected of being related to the regulations on trade-related payment.
- ② A financial institution failed to conduct careful checking although incoming and outgoing remittances were suspected of being related to the regulations on trade-related payment in light of the status of past transactions of a customer.

(Note) It should be noted that careful checking is required on “asari clam,” “sea urchin” and “Smilax china leaves” recognized as special North Korean products among imports subject to Foreign Exchange Act violations related to North Korea (as of June 29, 2012).

7. Response to the Regulations on the Purpose of Use of Funds

(1) Understanding of remittance information

[See II. 7. (1) ④ of the Inspection Manual (Attachment 1)]

The Inspection Manual requires that when Regulations on the Purpose of Use of Funds are in force, a remittance handling financial institution, etc. understand the purpose of remittance, the receiving bank and other information through the report by the customer or any other means to confirm whether the customer's payment conflicts with the regulations or not.

Matters pointed out in inspections

- ① While a financial institution had required employees to check remittance purposes to confirm remittances accepted through written remittance requests, its employees judged most of foreign customers' remittances as addressed to their respective hometowns and implemented such remittances without checking the purposes of remittances despite the fact that columns for the purpose of remittance were empty.
- ② While a financial institution had required its employees to receive a report from a customer denying any relation of a remittance accepted from the customer via the internet, etc. to the Regulations on the Purpose of Use of Funds with the description of NNK (Not North Korea), etc. and confirm whether the remittance violated the Regulations on the Purpose of Use of Funds, such remittance was implemented without such report from the customer.

(2) Careful checking

[See II. 7. (1) ④ of the Inspection Manual (Attachment 2)]

The Inspection Manual requires that Where There is a Doubt about the Truth of the content of an outgoing remittance based on information such as a foreign receiving bank, the address of a foreign receiver, or the purpose of remittance, etc. in addition to remittance information in (1) above when the Regulations on the Purpose of Use of Funds are in force or where a transaction is recognized as being obviously related to a specific country, a remittance handling financial Institution carries out careful checking after requesting the customer to present materials necessary to check the content, etc. thereof.

As for incoming remittances, the same confirmation as that for outgoing remittances is required in principle.

Matters pointed out in inspections

- ① When making an outgoing remittance for a payment for goods originating from Iran under a brokerage transaction, a financial institution failed to carefully check whether the remittance violated the Regulations on the Purpose of Use of Funds.

② A financial institution failed to carefully check a remittance despite the fact that it was an incoming remittance from Iran.

(Note) Financial institutions are required to confirm whether all incoming remittances violate the Regulations on the Purpose of Use of Funds regarding North Korea and whether incoming remittances only from Iran violate such regulations regarding Iran.

(3) Confirming the presence or absence of words related to the Regulations on the Purpose of Use of Funds

[See II. 7. (1) ④ of the Inspection Manual (Attachment 2)]

The Inspection Manual requires that where a financial institution has introduced an Automatic Checking System, it register words related to the Regulations on the Purpose of Use of Funds in an appropriate manner and carry out careful checking of remittances for which the relevant words have been detected. On the other hand, where a financial institution has not introduced such a system, the Manual requires that the institution check if there are words related to the Regulations on the Purpose of Use of Funds in a written remittance request and SWIFT messages, etc. pertaining to the remittance and carry out careful checking if any word is found.

Words related to the Regulations on the Purpose of Use of Funds refer to the names and SWIFT codes of banks of which the head office is located in a country subject to the Regulations on the Purpose of Use of Funds, the names of countries/cities subject to the regulations, and words related to specific activities.

As is the case with an outgoing remittance, a financial institution is required in principle to understand the sending bank, the purpose of the remittance and other information and confirm whether the remittance violates the Regulations on the Purpose of Use of Funds. If it is difficult to understand such information, however, a financial institution may appropriately check the presence or absence of words related to the Regulations on the Purpose of Use of Funds as described above, according to the Inspection Manual.

Matters pointed out in inspections

- ① A financial institution failed to register cities or specific activities of a country subject to the Regulations on the Purpose of Use of Funds in its Automatic Checking System, leaving the confirmation pertaining to the Regulations insufficient.
- ② A financial institution failed to subject some outgoing remittances to its Automatic Checking System, falling short of confirming the presence or absence of words related to the Regulations on the Purpose of Use of Funds in information for these remittances.
- ③ A financial institution without any Automatic Checking System failed to check whether words

related to the Regulations on the Purpose of Use of Funds were included in a SWIFT telegram pertaining to an incoming remittance before transferring the remitted fund into the receiver's deposit account.

(Note) It should be noted that Article 17 of the Foreign Exchange Act requires banks, etc. not to conduct an exchange transaction pertaining to a customer's payment before confirming whether the customer's payment is not subject to permission under the Foreign Exchange Act.

(4) Automatic remittances

[See II. 7. (1) ④ of the Inspection Manual (Attachment 2)]

The Inspection Manual provides that where a financial institution makes continuous outgoing remittances to the same receiver for the same purpose (hereinafter referred to as "automatic remittances") after having the relevant customer register the receiver and the purpose of the remittance in advance, if it is difficult to confirm whether each remittance violates the regulations on trade-related payment or the Regulations on the Purpose of Use of Funds along with the customer, a financial institution shall be deemed to fulfill its confirmation obligation by taking the following measures:

- a. In accepting an advance registration of the receiver and the purpose of remittance from a customer, a financial institution shall provide the customer with the regulations on trade-related payment and the Regulations on the Purpose of Use of Funds that are in force and understand information, such as the name of a good, the place of origin and the region of shipment to confirm that the remittance is not an outgoing remittance subject to economic sanctions such as asset freeze.
- b. A financial institution shall first voluntarily set the limits on each remittance amount and monthly and annual total remittance amounts for a customer and establish a monitoring system to detect remittances that exceed these limits. If an unusual remittance is detected, a financial institution shall understand the necessary information anew and request the submission of materials representing reasons for remittances to conduct careful checking.
- c. Where new regulations on trade-related payment or the Regulations on the Purpose of Use of Funds are imposed, a financial institution shall check whether remittances violate the new regulations based on information about their existing customers which had been understood at the time of advance registration. Where it is impossible to conduct checking based on information understood at the time of advance registration, a financial institution shall understand information, such as the name of a good, the place of origin, and the region of shipment, again for checking.

Matters pointed out in inspections

① While most automatic remittances were relatively small remittances to foreigners' hometowns,

a financial institution set excessively high remittance limits to detect unusual remittances, failing to have an effective monitoring system to detect unusual remittances compared with remittance purposes registered in advance.

- ② While automatic remittances included not only workers' relatively small remittances to their hometowns but also remittances for various other purposes, a financial institution set a uniform high remittance limit.
- ③ A financial institution implemented a remittance exceeding a limit without understanding the necessary information again in advance.

(Note) A monitoring system is designed to detect unusual remittances exceeding limits before their implementation. If unusual remittances are detected, a financial institution will have to acquire the necessary information from customers again before their implementation.

8. Record of the results of checking

[See II. 3. (2)-(3) and 7. (1) ⑤ of the Inspection Manual (Attachment 2)]

The Inspection Manual requires a financial institution, etc. to record the results of checking after their fulfillment of their checking obligations from the perspective of their administrative risk management.

In recording the results of checking pertaining to deposit accounts, the institution must record the content, results and the implementation of checking to preserve word information used in checking (including keywords for search) and the results of search with the relevant word information, etc. in writing or by an electromagnetic means, etc.

In addition, for a record of the fact that checking has been performed, the institution must preserve the date of checking and matters sufficient to specify the person who performed the checking, including the name, in writing or by an electromagnetic means, etc.

The institution is required to record the content of the Necessary Information acquired for confirming that a remittance is not subject to economic sanctions such as asset freeze, as well as the content confirmed based on materials presented by the customer to the effect that the remittance is not subject to economic sanctions such as asset freeze, the results of confirmation, and the fulfillment of the confirmation obligation. As for the regulations on trade-related payment and the Regulations on the Purpose of Use of Funds, the institution must record the fact of checking the necessary information and the confirmed content in a written remittance request, etc.

Where There Is a Doubt about the Truth of the Necessary Information or where careful checking (including checking account names against the name of sanctions targets) is conducted, the institution must record the background of the determination that a remittance is not subject to economic sanctions such as asset freeze.

Matters pointed out in inspections

- ① A financial institution failed to record words and other information used for checking whether customers, etc. were sanctions targets. It also failed to leave records sufficient to identify the date and implementer of the checking.
- ② A financial institution failed to develop administrative provisions on how to check whether outgoing and incoming remittances violate the Regulations on the Purpose of Use of Funds and how to record the checking, leaving no record of checking results, etc. pertaining to the regulations.

9. Response to economic sanctions such as asset freeze at overseas branches of Japanese banks

[See II. 8. of the Inspection Manual (Attachment 2)]

Provisions for Japanese banks' confirmation obligation pertaining to payments requested by customers are applied to overseas branches of Japanese banks. The overseas branches must provide training, etc. for ensuring compliance with necessary foreign exchange laws and regulations and internal provisions on administrative work, etc. so that employees including those employed overseas can conduct administrative processes pertaining to compliance with foreign exchange laws and regulations in an appropriate manner, in addition to training for compliance with local law.

Matters pointed out in inspections

An overseas branch of a Japanese bank failed to conduct careful checking on whether an outgoing remittance for payment for a brokerage transaction related to Iran would violate the Regulations on the Purpose of Use of Funds.

III. Financial institutions' obligation to identify customers

[See II. 2. and 3. of the Inspection Manual (Attachment 3)]

As for the identification of customers for specified exchange transactions, acts such as capital transaction contract conclusion and currency exchange, the Inspection Manual separates cases for identification only through identity confirmation documents from those for identification through sending of a transfer-prohibited postal items and cites the confirmation of expiration dates for identity confirmation documents as one of the matters to keep in mind. It also lists matters to keep in mind in preparing and preserving a record of identity confirmation.

Matters pointed out in inspections

- ① A financial institution, when having received identify confirmation documents for a representative person, etc., failed to mail transaction documents as a transfer-prohibited postal item.
- ② Documents without a period of validity that had been issued six months or more ago or documents for which the period of validity had expired were used for identity confirmation.
- ③ A financial institution, when having received the presentation of a passport for a representative person without his or her address, failed to use any of the documents cited in Paragraph 2, Article 8, Ministerial Ordinance on Foreign Exchange for confirming the address.
- ④ Even though a financial institution did not preserve a copy of identity confirmation documents along with a record of identity confirmation documents, the institution failed to record the date and time when it received the identity confirmation documents.

IV. Defects Related to Obligation to Give Notification of Suspicious Transactions, etc.

Pertaining to Currency Exchange Business

[See I. 2. (1) and II. 1. (1) of the Inspection Manual (Attachment 5)]

The Inspection Manual requires that any financial information prepare a specific administrative procedure manual for notification of suspicious transactions that should include a reference casebook depicting examples.

When whether a transaction is subject to suspicious transaction notification cannot be judged based on the reference casebook depicting examples or information on the transaction, a financial institution is required to confirm information necessary for judging whether the transaction is subject to suspicious transaction notification.

Matters pointed out in inspections

When making a massive cash currency exchange transaction with a customer, a financial institution failed to confirm information such as the purpose of the transaction, falling short of making an appropriate judgment on whether the currency exchange transaction was subject to suspicious transaction notification.

V. Defects related to the notification obligation pertaining to foreign exchange transactions

1. Notification of Identification Data, etc. Pertaining to Foreign Exchange Transactions

[See II. 1. (1) of the Inspection Manual (Attachment 6)]

The Inspection Manual requires that the Sales Division of a specified business operator that receives

requests for foreign exchange transactions from customers understand the data to notify in an appropriate manner by means such as by requesting customers to complete foreign remittance request forms and that the administrative division of a specified business operator that carries out remittance work pertaining to foreign exchange transactions accurately notify the identification data, etc. of customers.

Matters pointed out in inspections

- ① When making a foreign exchange transaction with a natural person, a financial institution notified a business name instead of the customer's personal name.
- ② When making a foreign exchange transaction with a natural person, a financial institution changed the middle name of a customer into an initial letter or removed the middle name, omitting part of the customer's name for notification.
- ③ When making a foreign exchange transaction with a natural person or an association without juridical personality, a financial institution notified identification data for an agent or a representative person, etc. of the association without juridical personality instead of the customer.
- ④ When making a foreign exchange transaction with a natural person, a financial institution notified the location of the customer's workplace instead of the customer's residence.
- ⑤ When making a foreign exchange transaction with a juridical person, a financial institution notified the location of a branch or office instead of the head office or principal office.
- ⑥ Misunderstanding that no notification obligation has to be fulfilled for foreign remittance transactions requested by customers such as securities companies, a financial institution failed to notify account numbers, etc. pertaining to such transactions.

(Note) Provisions on the obligation to identify customers in Paragraph 1, Article 4, Criminal Proceeds Act call for using prescribed identity confirmation documents for confirming customer identification data, requiring that when foreign national names in the Latin Alphabet are available in identity confirmation documents, the names confirmed in identity confirmation (specified in identify confirmation documents) are accurately notified without middle names, etc. being omitted.

2. Clarification of Matters to Notify in Requesting an Intermediate Bank to Prepare/Transmit a SWIFT Telegram

[See II. 2. of the Inspection Manual (Attachment 6)]

The Inspection Manual requires that where a specified business operator that has received a remittance request from a customer (sending bank) requests another specified business operator

(intermediate bank) to prepare and transmit a SWIFT telegram, the sending bank present accurate matters to notify to the intermediate bank so as to prevent the intermediate bank that has received the request from notifying false matters.

In addition, the intermediate bank is required to collaborate with the sending bank in order to prepare an accurate SWIFT telegram.

Matters pointed out in inspections

A sending bank that accepted an outgoing remittance from a customer failed to clarify matters to notify when faxing a remittance request form to an intermediate bank, leading the intermediate bank to fail to notify matters such as an account number of the sending bank pertaining to a foreign exchange transaction for the remittance.