

December 2014

National Risk Assessment of Money Laundering and Terrorist Financing

Working Group on the National Risk Assessment of
Money Laundering and Terrorist Financing
Of
Liaison Conference of Related Ministries and Agencies
for Implementation of FATF Recommendations

Abbreviations for laws etc.

1 Abbreviations for laws

Abbreviations for laws are as follows.

| [Abbreviation] | [Law] |
|---|---|
| Act on Punishment of Organized Crimes | Act on Punishment of Organized Crimes and Control of Crime Proceeds |
| Anti-Drug Special Provisions Law | Act concerning Special Provisions for the Narcotics and Psychotropics Control Act for the Prevention of Activities Encouraging Illicit Conduct and Other Activities Involving Controlled Substances through International Cooperation |
| Interest Deposit and Interest Rate Act | Act Regulating the Receipt of Contributions, Receipt of Deposits and Interest Rates |
| Firearms and Swords Control Act | Act for Controlling the Possession of Firearms or Swords and Other Such Weapons |
| Amusement Business Act | Act on Control and Improvement of Amusement Business, etc. |
| The Customer Identification Act | Act on Confirmation of Customers' Identification by Financial Institutions, etc. and Prevention of Unauthorized Use of Deposit Account, etc. |
| Act on Punishment of Financing to Offences of Public Intimidation | Act on Punishment of the Financing to Criminal Activities for the Purpose of Intimidation of the General Public and of Governments |
| Immigration Control Act | Immigration Control and Refugee Recognition Act |
| Worker Dispatching Act | Act for Securing the Proper Operation of Worker Dispatching Undertakings and Improved Working Conditions for Dispatched Workers |

2 Abbreviations for conventions etc.

Abbreviations for conventions etc. are as follows.

| [Abbreviation] | [Conventions etc.] |
|-----------------------------|---|
| UN New Narcotics Convention | United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances |
| G8 Action Plan Principles | G8 Action Plan Principles to prevent the misuse of companies and legal arrangements |
| Japan Action Plan | Japan Action Plan to prevent the misuse of companies and legal arrangements |

[Government ministries and agencies which consist of Working Group on the National Risk Assessment of Money Laundering and Terrorist Financing]

National Police Agency
Financial Services Agency
Ministry of Internal Affairs and Communications
Ministry of Justice
Ministry of Finance
Ministry of Health, Labour and Welfare
Ministry of Agriculture, Forestry and Fisheries
Ministry of Economy, Trade and Industry
Ministry of Land, Infrastructure, Transport and Tourism
Cabinet Secretariat (observer)
Ministry of Foreign Affairs (observer)

National Risk Assessment of Money Laundering and Terrorist Financing

Table of Contents

| | | |
|------------------|--|----------|
| Chapter 1 | Current Situation of Money Laundering and Terrorist Financing | 1 |
| Section 1 | Risk Assessment | 1 |
| 1. | Background | 1 |
| 2. | Implementation System | 1 |
| 3. | Purpose | 1 |
| Section 2 | Threat of Money Laundering and Terrorist Financing | 2 |
| 1. | Environment Surrounding Japan | 2 |
| (1) | Geographic Environment | 2 |
| (2) | Economic Environment | 2 |
| (3) | Criminal Circumstances | 3 |
| 2. | Threat of Money Laundering and Terrorist Financing in Japan | 3 |
| (1) | Money Laundering | 3 |
| A. | Offenders | 3 |
| B. | Modus Operandi | 5 |
| (a) | Predicate Offenses | 5 |
| (b) | Transactions etc. Misused for Money Laundering | 6 |
| (2) | Terrorist Financing | 7 |
| Section 3 | AML/CFT Regimes | 7 |
| 1. | Outline of the Act on Prevention of Transfer of Criminal Proceeds | 7 |
| (1) | Purpose of the Act (Article 1) | 8 |
| (2) | Criminal Proceeds (Paragraph 1 of Article 2) | 8 |
| (3) | Specified Business Operators (Paragraph 2 of Article 2) | 8 |
| (4) | Responsibilities of the National Public Safety Commission and FIU (Article 3) | 9 |
| (5) | Measures by Specified Business Operators | 9 |
| (6) | Dissemination of STR Information (Articles 12 and 13) | 12 |
| (7) | Supervision (Articles 14 through 18, 24, 25 and 29) | 12 |
| (8) | Penal Provisions regarding Reception/Delivery/Provision of Deposit/ Savings Passbooks and Exchange Transaction Cards (Articles 27 and 28) | 12 |
| 2. | Outline of the Anti-Drug Special Provisions Law | 12 |
| (1) | Criminalization of Money Laundering | 13 |
| (2) | Confiscation, Collection of Equivalent Value and Preservative Measures (Article 11 through 13, 19, 20) | 13 |
| 3. | Outline of the Punishment of Organized Crimes | 13 |
| (1) | Punishment of Money Laundering (Article 9 through 11) | 13 |
| (2) | Confiscation, Collection of Equivalent Value and Preservative Measures (Article 13 through 16, 22, 23, 42, 43) | 13 |
| 4. | Outline of the Act on Punishment of Financing to Offences of Public Intimidation | 14 |
| 5. | Crackdown on Offenses Related to Money Laundering | 14 |
| (1) | Cleared Cases of Violation of the Act on Prevention of Transfer of Criminal Proceeds | 14 |
| (2) | Cleared Cases of Money Laundering under the Act on Punishment of Organized Crimes | 14 |
| (3) | Cleared Cases of Money Laundering under the Anti-Drug Special Provisions Law | 15 |
| (4) | Deprivation of Criminal Proceeds | 15 |
| A. | Temporary Restraining Order before Prosecution | 15 |
| (a) | Temporary Restraining Order under the Act on Punishment of Organized Crimes | 15 |
| (b) | Temporary Restraining Order under the Anti-Drug Special Provisions Law | 16 |
| B. | Application of Provisions of Confiscation and Collection of Equivalent Value | 17 |
| (a) | Application of Provisions of Confiscation and Collection of Equivalent Value under the Act on Punishment of Organized Crimes | 17 |

| | |
|---|----|
| (b) Application of Provisions of Confiscation and Collection of Equivalent Value under the Anti-Drug Special Provisions Law | 17 |
| (5) Rectification Order to Specified Business Operators | 18 |
| A. Collection of Reports and Opinion Statements by National Public Safety Commission and National Police Agency..... | 18 |
| B. Issuing of Rectification Order by Competent Administrative Authorities Based on Opinion Statements | 18 |
| 6. Reports of Suspicious Transactions | 18 |
| (1) System Outline | 18 |
| A. Purpose | 18 |
| B. Flow of Suspicious Transaction Reporting | 19 |
| C. When STRs Are Required..... | 19 |
| D. List of Reference Cases of Suspicious Transactions..... | 20 |
| (2) Situation of STR Filings | 20 |
| A. Transition of the Number of Reports Received | 20 |
| B. Transition of the Number of Received Reports by Business Types | 21 |
| (3) Analysis by JAFIC | 22 |
| (4) Utilization of Reports by Law Enforcement Authorities (LEAs) | 23 |
| A. Prefectural Police | 23 |
| (a) Transition of the Number of Cleared Cases initiated with STRs..... | 23 |
| (b) Transition of the Number of Cleared Money Laundering Cases Initiated with STRs | 24 |
| (c) Transition of the Number of Cases that led to Confiscation and Collection of Equivalent Value Initiated with STRs | 25 |
| (d) Number of STRs Used for Investigative Purposes..... | 25 |
| B. Public Prosecutors Office | 25 |
| C. Narcotics Control Department | 26 |
| D. Japan Coast Guard | 26 |
| E. Customs | 26 |
| F. Securities and Exchange Surveillance Commission | 26 |
| 7. Progress of the International Cooperation | 26 |
| (1) Information Exchange with Foreign FIUs | 26 |
| A. Establishment of the Framework for Exchange of Information..... | 26 |
| B. Situation of Information Exchange..... | 27 |
| C. Discussions | 27 |
| (2) International Cooperation in Criminal Justice | 27 |
| A. Extradition of Fugitive..... | 27 |
| B. Mutual Legal Assistance (MLA) | 28 |
| C. Judicial Assistance | 28 |
| D. Investigative Cooperation through the International Criminal Police Organization (ICPO) | 29 |
| E. International Transfer of Sentenced Persons..... | 29 |

Chapter 2 Risk Assessment of Money Laundering and Terrorist Financing 30

Section 1 Risk Assessment Method 30

| | |
|---|----|
| 1. Authority that Conducted Risk Assessment | 30 |
| 2. Process of Risk Assessment | 30 |
| 3. Analytical Method for Risk..... | 30 |
| (1) Analysis of Factors to Enhance ML/TF Risks..... | 30 |
| (2) Analysis of Factors to Mitigate ML/TF Risks | 31 |
| 4. Hearing Opinions from Experts/Specialists | 31 |

| | |
|---|-----------|
| 5. Risk Assessment of Terrorist Financing | 31 |
| Section 2 Risk Assessment | 31 |
| 1. Risk Assessment Focusing on Transaction Types | 31 |
| (1) Non-Face-to-face Transactions | 31 |
| (2) Cash Transactions | 33 |
| (3) International Transactions | 35 |
| 2. Risk Assessment Focusing on Customer Types | 37 |
| (1) Anti-social Forces (Boryokudan etc.) | 37 |
| (2) Non-resident Customers | 39 |
| (3) Foreign Politically Exposed Persons | 39 |
| (4) Legal Persons without Transparency of Beneficial Ownership | 40 |
| (5) Customers Who Use an Identification Document without a Photograph | 42 |
| 3. Risk Assessment Focusing on Countries and Regions | 43 |
| 4. Risk Assessment Focusing on Product/Service Types | 44 |
| (1) Products and Services Handled by Deposit-taking Institutions | 44 |
| A. Outline of Deposit-taking Institutions | 44 |
| B. Suspicious Transaction Reports (STRs) | 44 |
| C. Deposit/Savings Account | 45 |
| D. Deposit Transactions | 47 |
| E. Domestic Exchange Transactions | 48 |
| F. Safe-deposit Box | 49 |
| G. Bills and Checks | 50 |
| H. Assessment on Products and Services Handled by Deposit-taking Institutions | 51 |
| (2) Funds Transfer Service | 52 |
| (3) Foreign Currency Exchange | 55 |
| (4) Insurance | 58 |
| (5) Investment | 59 |
| (6) Real Estate | 62 |
| (7) Precious Metals and Stones | 64 |
| (8) Postal Receiving Service | 65 |
| (9) Legal/Accounting Professions | 67 |
| (10) Trust | 69 |
| 5. Risk Assessment of Transactions Utilizing New Technology | 70 |
| (1) Electronic Money | 70 |
| (2) Bitcoin etc. | 72 |
| Section 3 Factors to Mitigate ML/TF Risks | 72 |
| 1. Intention | 72 |
| 2. Factors to Mitigate ML/TF Risks | 72 |
| 3. Assessment of Transaction Prescribed in Article 4 of Ordinance | 73 |

Chapter 1 Current Situation of Money Laundering and Terrorist Financing

Section 1 Risk Assessment

1. Background

In the modern society where Information Technology and globalization of economic/financial service are advancing, situation of money laundering and/or terrorist financing (hereinafter referred to as “ML/TF”) is always changing. Global countermeasures under the cooperation by countries are required in order to strongly cope with the problem.

FATF (Financial Action Task Force) requests countries to identify national ML/TF risks and assess them in compliance with "40 Recommendations", which was revised in February 2012.

In addition, in G8 Lough Erne Summit, which was held in June 2013, considering the present state that there are cases in which companies etc. are misused for money laundering and tax avoidance because it is difficult to grasp beneficial ownership and control structure of the companies, G8 Action Plan Principles was agreed, which includes, among others, that each country shall assess national ML/TF risks and take actions corresponding to the risks identified in the assessment.

In the same month, based on G8 Action Plan Principles, Japan published “Japan Action Plan to prevent the misuse of companies and legal arrangement” which includes conducting national risk assessment on ML/TF by the end of 2014, through setting up a working group consisting of the National Police Agency and other relevant ministries and agencies including Financial Services Agency. ^{*1}

2. Implementation Regime

According to the action plan above, Japan set up “Working Group on the National Risk Assessment of Money Laundering and Terrorist Financing” (hereinafter referred to as “Working Group”) to conduct national risk assessment under “Liaison Conference of Related Ministries and Agencies for Implementation of FATF Recommendations” in July 2013. The chairperson of the Working Group is Director for Prevention of Money Laundering, Organized Crime Department, Criminal Affairs Bureau of National Police Agency, who is also the head of Japan’s FIU (Financial Intelligence Unit) or JAFIC (Japan Financial Intelligence Center). The members of the Working Group were made up of officials from National Police Agency, Financial Services Agency, Ministry of Internal Affairs and Communications, Ministry of Justice, Ministry of Finance, Ministry of Health, Labour and Welfare, Ministry of Agriculture, Forestry and Fisheries, Ministry of Economy, Trade and Industry, Ministry of Land, Infrastructure, Transport and Tourism, Cabinet Secretariat and Ministry of Foreign Affairs. These ministries and agencies relevant to anti-money laundering and countering the financing of terrorism (hereinafter referred to as “AML/CFT”) regimes cooperated to discuss and examine the issues.

3. Purpose

National risk assessment is to identify and assess risks at national level that various transactions, products and services handled by business operators can be misused for ML/TF.

In revised "40 Recommendations", the risk-based approach was explicitly introduced. The notion is to mitigate the risks by the implementation of appropriate measures for each transaction etc. in accordance with the risks identified which can be misused for ML/TF. National risk assessment is the premise for business operators to take the risk-based approach more properly.

At the national level, relevant ministries and agencies will take strategic and effective measures according to the result of risk assessment, based on the risk-based approach.

It is helpful for prevention of ML/TF that business operators carry out their own risk assessment based on the result of the national risk assessment and, take their own actions, in addition to the requirement by law, corresponding to the risks of transaction type, customer and product/service, etc. on a basis of the risk-based approach for aiming at the most efficient use of limited human and economic resources.

^{*1} Action Plan Principles to prevent the misuse of companies and legal arrangements (June 2013).
See http://www.mofa.go.jp/mofaj/gaiko/page3_000060.html.

Section 2 Threat of Money Laundering and Terrorist Financing

1. Environment Surrounding Japan

(1) Geographic Environment

Japan is an island country, located in the East Asia and surrounded by the Pacific Ocean and the Sea of Japan. People, goods and services etc. move across its boarder via either airports or seaports. There are 30 airports and 120 seaports for international trading.

The size of the land is about 378,000 km². Tokyo, which is the capital of Japan and located in the middle of Honshu (main island), and its surrounding area make the biggest economic zone in Japan. Population is approximately 127,120,000 as of March 1st, 2014. It decreased by about 220,000 (0.17%) compared to the same month of the previous year.

(2) Economic Environment

In the world economy, Japan's position is important. With GDP of 478.4 trillion yen (Calendar Year 2013, nominal), the country is the third biggest economy in the world. Nominal GDP per capita was 3,707,000 yen (Fiscal Year 2012). Seeing GDP component ratio (nominal) by each economic activity (by industry) in CY 2012, service industry was 19.9%, manufacturing industry was 18.2%, wholesale/retail business was 14.5%, and finance/insurance business was 12.1%. Service and manufacturing industries show relatively high ratio.

In FY 2013, total imports were 84.6129 trillion yen and total exports were 70.8574 trillion yen. China, U.S. and Korea were the top trading partners in FY 2013. Crude oil, liquefied natural gas, and clothes and accessories were top items in import. Cars, steel, and electronic parts such as semiconductors were top items in export.

Japan has a highly developed financial sector. As one of the biggest international financial centers in the world, a substantial amount of financial transactions are conducted. For example, in CY 2013, transaction value of listed stocks (First Section and Second Section of Tokyo Stock Exchange) was 643.7700 trillion yen at TSE.

Financial system is extended throughout the country and money can be transferred promptly and securely. At the end of FY 2013 (March 2013), there were 37,529 bank premises ^{*1}. Anywhere in Japan, it is easy to access to financial system. Other than that, these days, transaction through the Internet (Internet banking) is commonly carried out, which does not require a user to go to a bank.

Furthermore, it is expected that mobile payment, which is a settlement system through cell phone or smart-phone, will be more advanced.

In addition, Japan employs various approaches to promote tourism nation policy. As a result, the number of tourists to Japan exceeded 10,000,000 in CY 2013 for the first time. In the future, with more active movement of visitors, it is expected that convenience and efficiency of Japan's financial infrastructure will be more improved. For example, installation of automatic teller machines (hereinafter referred to as "ATM") through which people can withdraw Japanese yen in cash by credit card issued overseas is now promoted to enhance the convenience for tourists who visit Japan.

The environment described above enables "people, goods and money" to move around the world, across the borders.

^{*1} See "Financial Statement Analysis of All Banks" by Japanese Bankers Association and disclosure documents by Japan Post Bank. In Financial Statement Analysis of All Banks, there are 13,314 bank premises, which are headquarters, branches and local offices of 117 banks, including 6 city banks (Mizuho Bank, Bank of Tokyo-Mitsubishi UFJ, Sumitomo Mitsui Bank, Resona Bank, Mizuho Corporate Bank, Saitama Resona Bank), 64 regional banks, 41 regional banks II, 4 trust banks (Mitsubishi UFJ Trust and Banking Corporation, Mizuho Trust & Banking Co., Ltd., Sumitomo Mitsui Trust Bank, The Nomura Trust and Banking Company, Ltd) Sansei Bank, Aozora Bank. According to Japan Post Bank's disclosure documents, there are 24,215 premises (headquarters, branches, local offices, post offices and post office agencies). The number is the total of these reports.

Meanwhile, because of such environment, people who plan ML/TF are provided, at home and abroad, with various ML/TF possibilities. They try to select the best way from a variety of transactions, products and services to achieve their purpose - ML/TF.

If criminal proceeds and terrorist funds are put into Japan's economic activity through a highly developed financial system of the country and mingled with massive lawful money, it is very difficult to identify and track the criminal proceeds or the terrorist funds.

(3) Criminal Circumstances

White Paper on Crime 2013 provides comparative analysis of crime trends between Japan and overseas. It compares rates (the number of reported cases per population of 100,000) of major offences, including murder and theft, in Japan and 4 countries, France, Germany, U.K. (limited to England and Wales) and U.S. The analysis tells that Japan showed the lowest rates in those crimes from 2007 to 2011. Each country has different scope of crime and crime-constituting condition, as well as the method to take statistics, so it is not appropriate to make an immediate decision from the data, but the data can be interpreted as a piece of evidence which proves good public security condition of Japan.

In addition, Cabinet Office conducted "Special Opinion Survey on Security" in August 2012. Respondents of 59.7 % answered "safe" or "relatively safe" to the question, "Is Japan a safe country?"

Table 1-1 [Crime Rate for Major Offences, etc. in G5 Countries]

| | | 2007 | 2008 | 2009 | 2010 | 2011 |
|-----------------------|----------------|-------|-------|-------|-------|-------|
| Major offences | Japan | 1,491 | 1,420 | 1,330 | 1,239 | 1,159 |
| | France | 5,833 | 5,751 | 5,639 | 5,491 | 5,447 |
| | Germany | 7,635 | 7,436 | 7,383 | 7,253 | 7,328 |
| | U.K | 9,157 | 8,636 | 7,915 | 7,514 | 7,091 |
| | USA | 3,748 | 3,673 | 3,473 | 3,350 | 3,295 |
| Murder | Japan | 1.0 | 1.0 | 0.9 | 0.9 | 0.8 |
| | France | 3.0 | 3.1 | 2.6 | 2.8 | 3.1 |
| | Germany | 2.9 | 2.8 | 2.8 | 2.7 | 2.7 |
| | U.K | 2.6 | 2.3 | 2.2 | 2.1 | 1.8 |
| | USA | 5.7 | 5.4 | 5.0 | 4.8 | 4.7 |
| Theft | Japan | 1,117 | 1,072 | 1,015 | 948 | 887 |
| | France | 2,906 | 2,746 | 2,728 | 2,680 | 2,669 |
| | Germany | 3,112 | 2,972 | 2,859 | 2,814 | 2,940 |
| | U.K | 4,345 | 4,118 | 3,765 | 3,696 | 3,591 |
| | USA | 3,276 | 3,215 | 3,041 | 2,946 | 2,909 |

Note 1: Data from White Paper on Crime 2013

2: Crime rate means the number of reported cases per population of 100,000.

2. Threat of Money Laundering and Terrorist Financing in Japan

(1) Money Laundering

A. Offenders

Money laundering means, in general, the act of concealing sources or attribution of criminal proceeds. Any offender who illegally gains assets could potentially carry out money laundering. The type of the offender varies, regardless of nationality, crime type or organized involvement.

In Japan, money laundering by Boryokudan (Japanese organized crime groups) is especially a serious threat. There were a total of 85 cases cleared of money laundering related to Boryokudan members, associates and other related parties (hereinafter referred to as “Boryokudan gangsters”) in 2013, which account for 30.1% of all cases cleared of money laundering under the Act on Punishment of Organized Crimes and Anti-Drug Special Provisions Law (See Table 1-2).

Boryokudan gangsters repeat crimes professionally to gain economic profit and carry out money laundering tactically.

Money laundering by Boryokudan gangsters seems to be carried out internationally. U.S. published “Strategy to Combat Transnational Organized Crime” in July 2011. In it, U.S. designated Boryokudan gangsters as one of “serious transnational organized crime groups” and decided to freeze Boryokudan-related assets existing in U.S. or possessed or managed by U.S. citizens. U.S. also banned the citizens from dealing with Boryokudan gangsters.

Seeing cases cleared of money laundering under the Act on Punishment of Organized Crimes and Anti-Drug Special Provisions Law in 2013, 21 cases, or 7.4% of all cases, were committed by foreigners in Japan (See Table 1-2).

Regarding money laundering by foreigners, proceeds are, in many cases, transferred to other countries where law system or transaction system is different, including cases of remittance by foreign exchange transaction, cases of cash smuggling to their home country, etc.

Table 1-2 [Number of Cleared Cases of Money laundering under the Act on Punishment of Organized Crimes and Anti-Drug Special Provisions Law]

| Category \ Year | 2011 | 2012 | 2013 |
|---|-------------|-------------|-------------|
| Cleared cases of money laundering offenses | 251 | 249 | 282 |
| Cases by Boryokudan gangsters | 84 | 59 | 85 |
| Ratio (%) | 33.5% | 23.7% | 30.1% |
| Cases by foreigners | 14 | 17 | 21 |
| Ratio (%) | 5.6% | 6.8% | 7.4% |

Recently, specialized fraud cases are often reported.^{*1} Offenders swindle victims out of money without actually meeting, by making phone calls etc. Having the ringleader as the core, specialized fraud groups set each role. For example, one member cheats victims, another draws money, and the other procures crime tool. In this way, they commit organized fraud. In addition, they use fictitious bank accounts or accounts in the name of another party. Specialized fraud is a big threat of money laundering.

^{*1} Specialized fraud means frauds which cajole money out of unspecified strangers by some ways including making them transfer money into bank accounts through communication means such as telephone. Specialized fraud is the collective name of "Hey, it's me" type remittance fraud, false invoice fraud, financing deposit fraud, refund fraud, fraud disguising as financial instruments transaction, fraud disguising as winning gambling strategies provider, and fraud disguising as dating agency.

Table 1-3 [Recognized Numbers of Specialized Fraud and the Total Financial Damage]

| | 2010 | 2011 | 2012 | 2013 |
|--|----------------|----------------|----------------|----------------|
| Number of recognized cases | 6,888 | 7,216 | 8,693 | 11,998 |
| Total financial damage (yen) (Effective total amount of financial damage) | 11,247,278,665 | 20,404,305,829 | 36,436,112,888 | 48,949,490,349 |

Note 1: Data from the National Police Agency

2: Effective total amount of financial damage means original damage from fraud plus money which was withdrawn (stolen) from ATM by the use of defrauded cash cards.

Furthermore, there are some people who support indirectly money laundering. They sell offenders their own bank account for their amusement expenses or the cost of living, without thinking it seriously. Some even make fictitious bank accounts or accounts in the name of another party by the abuse of a falsified ID card. Such people make money laundering easier.

B. Modus Operandi

(a) Predicate Offenses

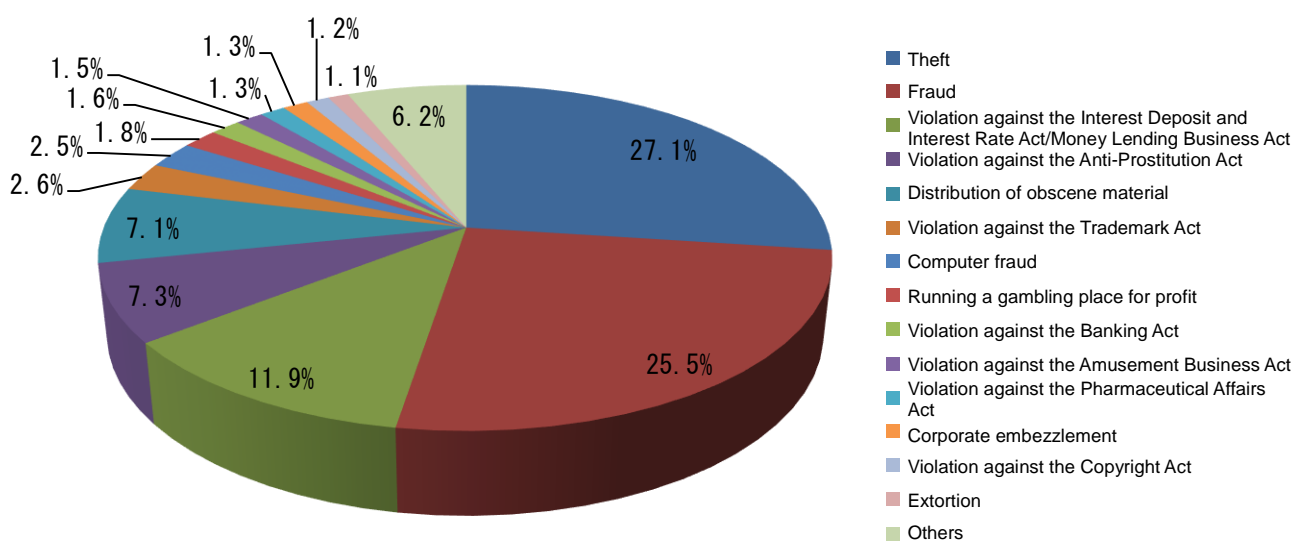
Money laundering is the act to conceal or receive criminal proceeds from predicate offenses and to control business operation of companies by the abuse of such proceeds. Predicate offenses are the crimes which produce unlawful proceeds that are the object of money laundering. Predicate offenses include drug-related crimes listed in the Anti-Drug Special Provisions Law and crimes listed in the attachment to the Act on Punishment of Organized Crimes. This attachment lists more than 200 offenses, including general criminal offenses such as murder, robbery, theft, fraud and breach of trust and special law offenses such as the Interest Deposit and Interest Rate Act, the Anti-Prostitution Act, Copyright Act, the Trademark Act, the Firearms and Swords Control Act and the Pharmaceutical Affairs Act.

Seeing cleared cases categorized as predicate offenses of money laundering under the Act on Punishment of Organized Crimes 2011-2013 ^{*1}, theft is the leading crime with 205 cases, or 27.1%, followed by fraud (193 cases, 25.5%), violation of the Interest Deposit and Interest Rate Act/Money Lending Business Act (90 cases, 11.9%), violation of the Anti-Prostitution Act (55 cases, 7.3%) and distribution of obscene material (54 cases, 7.1%).

In addition, from 2011 to 2013, there were 29 cleared cases of money laundering under the Anti-Drug Special Provisions Law, which has drug-related crimes as predicate offense (See Table 1-11).

^{*1} There were 753 cases cleared of money laundering offenses under the Act on Punishment of Organized Crimes from 2011 to 2013 (See Table 1-10), but as shown in Table 1-4, there were 757 cleared cases by predicate offenses. This is because of money laundering offenses which can be categorized into plural predicate offenses.

Table 1-4 [Number and Ratio of Clearance of Money Laundering under the Act on Punishment of Organized Crimes, Categorized into the Type of Predicate Offense (2011-2013)]



| Predicate offenses | Theft | Fraud | Violation against the Interest Deposit and Interest Rate Act/Money Lending Business Act | Violation against the Anti-Prostitution Act | Distribution of obscene material | Violation against the Trademark Act | Computer fraud | Running a gambling place for profit | Violation against the Banking Act | Violation against the Amusement Business Act | Violation against the Pharmaceutical Affairs Act | Corporate embezzlement | Violation against the Copyright Act | Extortion | Others | Total |
|--------------------|-------|-------|---|---|----------------------------------|-------------------------------------|----------------|-------------------------------------|-----------------------------------|--|--|------------------------|-------------------------------------|-----------|--------|--------|
| Total | 205 | 193 | 90 | 55 | 54 | 20 | 19 | 14 | 12 | 11 | 10 | 10 | 9 | 8 | 47 | 757 |
| Ratio | 27.1% | 25.5% | 11.9% | 7.3% | 7.1% | 2.6% | 2.5% | 1.8% | 1.6% | 1.5% | 1.3% | 1.3% | 1.2% | 1.1% | 6.2% | 100.0% |

(b) Transactions etc. Misused for Money Laundering

In FATF's guidance, "National Money Laundering and Terrorist Financing Risk Assessment" (hereinafter referred to as "FATF Guidance"), FATF states that it is useful to consider three steps of money laundering ^{*1} when conducting risk assessment.

Based on the FATF Guidance, an analysis was conducted on cleared money laundering cases (3 years from 2011 to 2013). To the extent what was found in the process of criminal investigation, the following were counted:

- Transactions, products and services misused for concealing criminal proceeds; and
- Products and services to which criminal proceeds gained in predicate offenses were transformed.

^{*1} (1)Placement : Stage to introduce criminal proceeds into the financial system (2)Layering : Stage to separate the criminal proceeds from their source by the creation of layers of transactions (3)Integration : Stage to place the criminal proceeds back into the economy

Table 1-5 [Transactions etc. Misused for Money Laundering (2011 – 2013)]

| Misused transactions | Inland exchange transactions | Cash transactions | Deposit transactions | Foreign transactions (such as foreign exchange) | Investment | Note/check | Real estate | Corporate status | Postal receiving service | Precious metals and stones | Legal/accounting professions | Insurance | Foreign currency exchange | Safe-deposit box | Electronic money | Transfer of goods | Physical concealment | Total |
|----------------------|------------------------------|-------------------|----------------------|---|------------|------------|-------------|------------------|--------------------------|----------------------------|------------------------------|-----------|---------------------------|------------------|------------------|-------------------|----------------------|-------|
| Number | 407 | 278 | 33 | 13 | 13 | 9 | 6 | 5 | 5 | 4 | 3 | 3 | 2 | 1 | 1 | 39 | 29 | 851 |

Note: Each number was extracted from cleared cases (782 cases, from 2011 to 2013) of money laundering under the Act on Punishment of Organized Crimes and Anti-Drug Special Provisions Law to the extent what was found in the process of criminal investigations as transactions etc. misused for concealing and receiving criminal proceeds and main products and services to which criminal proceeds were transformed.

Looking at Table 1-5, there were 407 domestic exchange transactions and 278 cash transactions. They account for the most in transactions misused for money laundering.

Based on the analysis of cleared cases of money laundering and Suspicious Transaction Reports (STRs) in Japan, the entities who try to conduct money laundering often get victims or the third parties to transfer criminal proceeds into fictitious accounts or accounts in the names of another parties through domestic exchange transactions which makes it possible to make prompt and secured funds transfer. In many cases, such criminal proceeds are withdrawn from ATM as cash, so it is very difficult to track.

Therefore, the abuse of domestic exchange and cash transactions are serious threat of money laundering in Japan.

(2) Terrorist Financing

Japan had experienced terrorism caused by, for example, Japanese Red Army and Aum Shinrikyo in the past. On the other hand, damages by terrorists or terrorist organizations designated by the United Nations Security Council have not been reported up to date in Japan.

In addition, we collect information on terrorist financing through various ways including STRs by business operators, but there is no cleared case related to terrorist financing so far.

From the fact mentioned above, serious threat of terrorist financing provider or receiver is not recognized so far in Japan. However, it should be noted that Japan could be a transit point of terrorist financing as well as money laundering.

So based on relevant United Nations Security Council Resolutions, Japan designates people connected with terrorism including Taliban etc. for the targeted financial sanction of asset freezing. Every time the designation list is revised, specified business operators are requested by competent administrative authorities to ensure that they thoroughly implement their obligations of customer due diligence such as verification at the time of transaction, reporting of suspicious transaction, etc. based on the Act on Prevention of Transfer of Criminal Proceeds.

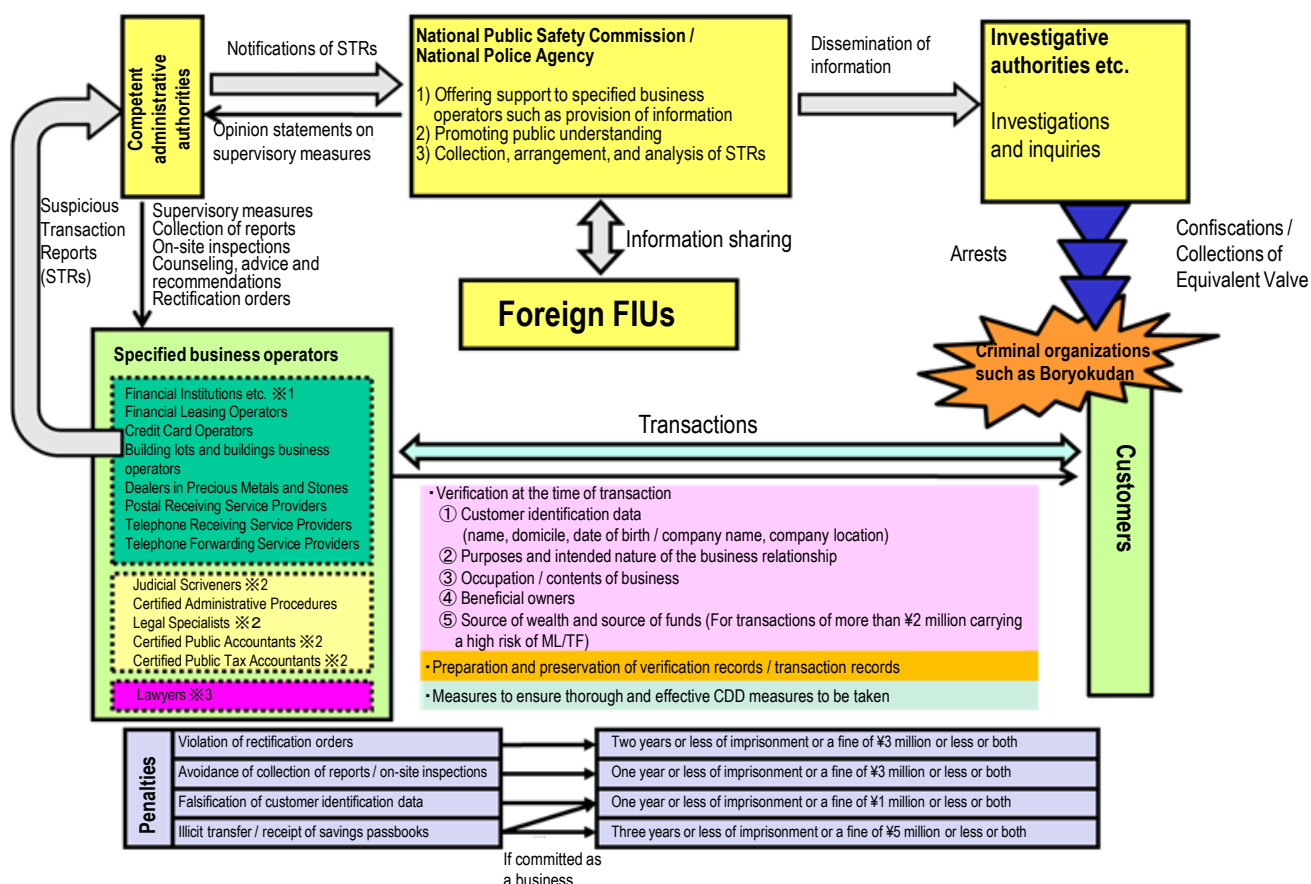
Section 3 AML/CFT Regimes

1. Outline of the Act on Prevention of Transfer of Criminal Proceeds

This Act stipulates systems which prevent ML/TF, including obligations for specified business operators to verify at the time of transaction on customers, make and preserve records, and make STRs, etc.

See Table 1-6 for the basic configuration of the Act.

Table1-6 [Overview of the Act on Prevention of Transfer of Criminal Proceeds]



※1 Amongst financial institutions etc., those operators involved in foreign exchange are required to provide notification on money remitters in addition to the above.

※2 Professions such as judicial scriveners, certified administrative procedures legal specialists, certified public accountants, and certified public tax accountants are required to verify the information in ① only.

※3 The Japan Federation of Bar Associations defines, in its bylaws, measures undertaken by lawyers which are equivalent to CDD including verification at the time of transaction, and preparation/preservation of verification/transaction records. These rules are based on examples of judicial scriveners and other professions contained in the Act on Prevention of Transfer of Criminal Proceeds.

(1) Purpose of the Act (Article 1)

The purpose of the Act is to prevent the transfer of criminal proceeds and to ensure the appropriate enforcement of international treaties, etc., concerning the prevention of terrorist financing and thereby, to ensure the safety and peace of national life and to contribute to the sound development of economic activities by way of devising such measures as the verification of customer identification data, preservation of transaction records or the like, and reporting of suspicious transactions by a specified business operators, as described in 3, coupled with other measures stipulated by the Act on Punishment of Organized Crimes and the Anti-Drug Special Provisions Law.

(2) Criminal Proceeds (Paragraph 1 of Article 2)

The term “criminal proceeds” as used in the Act means criminal proceeds etc. (including terrorist funds) prescribed in Article 2, paragraph 4 of the Act on Punishment of Organized Crimes or drug-related criminal proceeds etc. prescribed in Article 2, paragraph 5 of the Anti-Drug Special Provisions Law.

(3) Specified Business Operators (Paragraph 2 of Article 2)

Any financial institutions or Designated Non-Financial Business and Professions (DNFBPs), which fall under the Act and thus are required to perform customer due diligence (hereinafter referred to as “CDD”) and other obligations, should be called “specified business operators,” whose designation would occur in line with the FATF standards and also the domestic business context.

Specified business operators

- Financial institutions (Item 1 through 36):
Bank; Shinkin bank; Federation of Shinkin banks; Labor bank; Federation of labor banks; Credit cooperative; Federation of credit cooperatives; Agricultural cooperative; Federation of agricultural cooperatives; Fishery cooperative; Federation of fishery cooperatives; Fishery processing cooperative; Federation of fishery processing cooperatives; Norinchukin Bank; Shokochukin Bank; Development Bank of Japan; Insurance company; Foreign insurance company, etc.; Small-claims/short term insurance business operator; Federation of fishery cooperatives for mutual aid; Financial instruments business; Securities finance company; Specially permitted business notifying person; Trust company; Self-trusted companies; Real estate specified joint enterprise operator or special enterprise operator; Mutual loan company; Money lender; Call money market broker; Funds transfer service provider; Commodity Derivatives Business Operator; Book-entry, transfer institution; Account management institution; Electronic monetary claim recording institution; Management Organization for Postal Savings and Postal Life Insurance; Currency exchanging operator
- Financial leasing operator (Item 37)
- Credit card operator (Item 38)
- Building lots and buildings business operators (Item 39)
- Dealers in precious metals and stones (Item 40)
- Postal receiving service providers, telephone receiving service providers and telephone forwarding service providers (Item 41)
- Lawyer or legal profession corporation (Item 42)
- Judicial scrivener or judicial scrivener corporation (Item 43)
- Certified administrative procedures legal specialists or certified administrative procedures legal specialists corporation (Item 44)
- Certified public accountants or audit firm (Item 45)

(4) Responsibilities of the National Public Safety Commission and FIU (Article 3)

The Act provides that the National Public Safety Commission has responsibilities 1) to enhance public awareness on the importance of AML/CFT in order to ensure that specified business operators conduct appropriate measures in performing CDD, and to provide them with support including the provision of information on the modus operandi; regarding the transfer of criminal proceeds, and 2) to promptly and appropriately collect, arrange and analyze information on criminal proceeds including information on suspicious transactions reported by specified business operators so that such information can be effectively utilized in the investigation into criminal cases and related international cooperation.

(5) Measures by Specified Business Operators

Under the Act, specified business operators are obligated to engage in the following matters. Specified business operators, specified business affairs subject to obligations, specified transactions subject to the verification at the time of transaction, and related obligations are shown in Table 1-7.

Table1-7 [State of Correspondence of Specified Business Operators, Specified Business Affairs, Specified Transactions, and Obligations]

| Specified Business Operators (Paragraph 2 of Article 2) | Specified Business Affairs (Scope subject to obligations) | Specified Transactions (Verification required during transactions) (See Note 1) | Obligations |
|--|---|---|---|
| Financial Institutions etc. (Items 1 through 36) | Business affairs conducted by financial institutions, etc. (limited to business affairs regarding finance) | Conclusion of deposit/savings contracts (which means contracts for the acceptance of deposits or savings), large cash transactions exceeding 2,000,000 yen, cash remittance exceeding 100,000 yen etc. | |
| Financial Leasing Operators (Item 37) | Financial leasing business affairs (limited to transactions which cannot be terminated earlier than the end of a contract, and to cases where the leaseholder enjoys the benefit associated with use of leased product and bears the cost) | Conclusion of lease contracts of goods whose lease fee exceeds 100,000 yen per payment | <ul style="list-style-type: none"> • Verification at the time of transactions (Article 4) • Preparation and preservation of verification records (Article 6) • Preparation and preservation of transaction records (Article 7) • Reporting of suspicious transactions (Article 8) • Measures to ensure accurate verification at the time of transactions (Article 10) (See Note 2) |
| Credit Card Operators (Item 38) | Credit card business affairs | Conclusion of contracts for the delivery or issuance of a credit card | |
| Building lots and buildings business operators (Item 39) | Business affairs which pertain to the buying and selling of building lots or buildings, or agent work or intermediation thereof | Conclusion of contracts for buying and selling building lots or buildings, or agent work or intermediation thereof | |
| Dealers in Precious Metals and Stones (Item 40) | Business affairs which pertain to the buying and selling precious metals (gold, platinum, silver and alloy of these metals) and jewelry (diamond and other precious stones, semiprecious stones and pearls) | Conclusion of contracts for buying and selling precious metals etc. whose payment amount exceeds 2,000,000 yen by cash | |
| Postal Receiving Service Providers (Item 41) | Business affairs for providing a service of receiving postal mail on behalf of a customer | Conclusion of contracts for the provision of service | |
| Telephone Receiving Service Providers (Item 41) | Business affairs for providing a service for receiving telephone calls on behalf of a customer | Conclusion of contracts for the provision of service * Conclusion of a contract including a clause stating that the operator will clearly specify the company name of the agent when receiving a telephone call is excluded. * Conclusion of a contract for call center business, etc. is excluded. | <ul style="list-style-type: none"> • Measures to ensure accurate verification at the time of transactions (Article 10) (See Note 2) |
| Telephone Forwarding Service Providers (Item 41) | Telephone forwarding services | Conclusion of contracts for the provision of service | |
| Judicial Scriveners (Item 43) Certified Administrative Procedures Legal Specialists (Item 44) Certified Public Accountants (Item 45) Certified Public Tax Accountants (Item 46) | Business affairs which pertain to agent or deputy work for the following acts: - Acts or procedures concerning the buying and selling of building lots or buildings - Acts or procedures concerning the establishment, merger etc. of companies, etc. - Management or disposition of cash, deposits, securities and other property * Payment of tax, penalty, fine, etc. is excluded. * Management or disposition of others' property as a duty of a person appointed by the court or the competent administrative authority, such as a guardian of an adult etc. is excluded. | Conclusion of contracts for carrying out agent work etc. for the following acts - Acts or procedures concerning the buying and selling of building lots or buildings - Acts or procedures concerning the establishment, merger etc. of companies, etc. - Management or disposition of cash, deposits, securities and other property whose value exceeds 2,000,000 yen * Conclusion of a contract for a voluntary guardian is excluded | <ul style="list-style-type: none"> • Verification at the time of transactions (Article 4) (See Note 3) • Preparation and preservation of verification records (Article 6) • Preparation and preservation of transaction records (Article 7) • Measures to ensure accurate verification at the time of transactions (Article 10) |
| Lawyers (Item 42) | The Japan Federation of Bar Associations defines, in its bylaws, measures to ensure accurate verification on transactions, and preparation/preservation of verification records and transaction records by lawyers. These rules shall be applied mutatis mutandis to the provisions of judicial scriveners etc. prescribed in the Act on Prevention of Transfer of Criminal Proceeds. (Article 11) | | |

- Note 1: Excludes transactions with customers whose identifications have already been verified, except in cases where identity theft is suspected.
2: Amongst financial institutions, those operators involved in foreign exchange are required to provide notification on remitters. (Article 9)
3: Professionals such as judicial scriveners, certified administrative procedures legal specialists, certified public accountants, and certified tax accountants are required to verify customer identification items only.

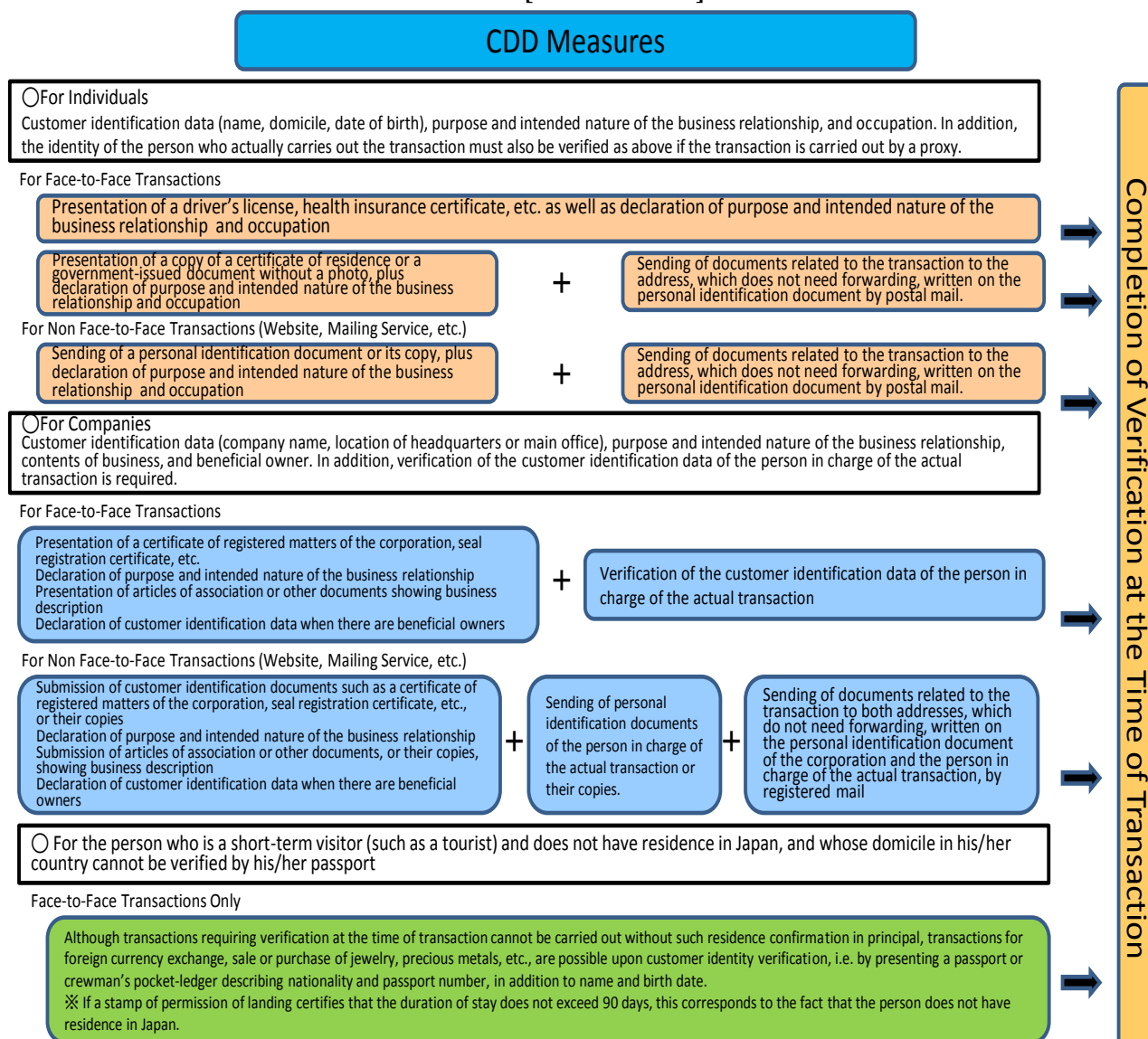
(a) Verification at the Time of Transaction (Article 4)

In conducting transactions falling under “specified transactions” or whenever there is a suspicion of ML/TF because of, for example, a suspicion of pretending to be another person, specified

business operators are required to perform CDD to verify identification data of a customer such as: the name and domicile by asking for his/her identification documents such as driver's license; purpose and intended nature of the transaction: type of business; information on the beneficial owner; etc. (for professions such as judicial scriveners, certified administrative procedures legal specialists, certified public accountants and tax accountants, verification of identification data alone is applicable). For transactions with higher risk of ML/TF, enhanced due diligence is required to carry out, which is requiring additional information as to assets/income of the customer.

Methods of verification at the time of transactions are as shown in Table 1-8.

Table1-8 [CDD Measures]



※ For transactions that carry a high risk of ML/TF, verification at the time of transaction must be carried out with stricter criteria. And, for transactions of over ¥2 million, verifications of source of wealth and source of funds are also required.

(b) Preparation and Preservation of Verification Records (Article 6)

Specified business operators are required to prepare and keep records of verification records collected at the time of transaction, as well as measures taken for verification of the customer at the time of the transaction, for seven years from the day when the transactions were completed or terminated;

(c) Preparation and Preservation of Transaction Records etc. (Article 7)

Specified business operators are required to prepare and keep the record of the date and contents, etc. of transactions concerned for seven years;

- (d) **Reporting of Suspicious Transactions (Article 8)**
Specified business operators are required to report transactions that are suspected of being related to criminal proceeds to a competent administrative authority, except for professions such as judicial scriveners;
- (e) **Notification Pertaining to Foreign Exchange Transactions (Article 9)**
In conducting exchange transactions pertaining to payment from Japan to foreign countries, the following financial institutions are required to notify the receiving institutions of certain items such as the name and the account number. This article is applied only to financial institutions that can conduct exchange transactions;
- (f) **Measures to Ensure Thorough and Effective CDD Measures to Be Taken (Article 10)**
Specified business operators are required to perform on going due diligence, and to set up other internal control systems as necessary.
- (g) **Measures by Lawyers (Article 11)**
It is established by special provision, that lawyers shall conduct measures relevant to those described in (a) through (c) and (f) above based on The Rule of the Japan Federation of Bar Associations in line with cases of judicial scrivener.

The CDD regime in which measures as described in (a) through (c) above are undertaken is intended to make the financial or other services less attractive to those who try to abuse them for ML/TF or any other illicit purposes and to ensure traceability of illicit funds. Meanwhile, the STR regime as described in (d) in which reported information will be used for investigations into ML/TF and/or predicate offences is also intended to protect the financial system from misuse of ML/TF to ensure its soundness. Measures (as noted in (f)) are intended to ensure accuracy of the customer identification process during transactions, making the process more efficient.

These measures are expected to help business operators conduct appropriate CDD and be more aware of ML/TF risks in a comprehensive and efficient manner. The purpose of notification pertaining to foreign exchange transactions described in (e) is to make it possible to trace funds beyond borders if criminal proceeds are transferred to a foreign country.

(6) Dissemination of STR Information (Articles 12 and 13)

In order to make use of STR information for investigations conducted domestically or internationally, JAFIC may disseminate such information to public prosecutors, assistant officers to prosecutors, judicial police officials (police officers, narcotics control agents and coast guards), customs officers and personnel of the Securities and Exchange Surveillance Commission (SESC) and other related investigators. JAFIC would also disseminate STR information to foreign FIUs concerned based on the agreed terms of conditions.

(7) Supervision (Articles 14 through 18, 24, 25 and 29)

The Act provides for a supervisory regime undertaken by competent administrative authorities in order to ensure the compliance of specified business operators. For this purpose, the supervising authorities would exercise a supervisory power over the regulated businesses such as on/off-site inspection or issuing a rectification order for non-compliance. Specified business operators who have failed to submit reports or materials, or submit false reports or materials, or who refused on-site inspections, shall be punished with imprisonment with labor for not more than one year or a fine of not more than three million yen or both. Those who violate rectification order shall be punished with imprisonment with work for not more than two years or a fine of not more than three million yen or both.

Importantly, to complement the supervision by the regulating authorities, the National Public Safety Commission is authorized to advise the supervising authorities over whether appropriate actions should be taken against a specified business operator based on the fact of detected non-compliance. For the purpose of this duty, the National Public Safety Commission is also granted an authority to inspect a specified business operator in doubt.

(8) Penal Provisions regarding Reception/Delivery/Provision of Deposit/Savings Passbooks and Exchange Transaction Cards (Articles 27 and 28)

Considering the fact that there are cases in which traded deposit/savings passbooks, ATM cards or Exchange Transaction Cards are exposed to exploitation for the purpose of ML/TF or any proceed-related crimes, in order to prevent it, the Act prohibits anyone from accepting or receiving a deposit/savings passbook as a subject of transaction no matter whether or not it is for value and provides that anyone who conducts the said act shall be punished with imprisonment with work for not more than one year or a fine of not more than one million yen or both. Specifically, when such transaction is conducted as a business of any parties concerned, the punishment would be severer to imprisonment with work for not more than three years or a fine of not more than five million yen or both.

Furthermore, it is also prohibited that anyone invites or solicits another party to assign, deliver or provide a deposit/savings passbook no matter whether or not it is for value, resulting in a punishment of imprisonment with work for not more than one year or a fine of not more than one million yen or both.

2. Outline of the Anti-Drug Special Provisions Law

The Anti-Drug Special Provisions Law had been enacted for the purpose of blocking cycles of illegal proceeds derived from drug crimes, directly triggered by the UN New Narcotics Convention adopted in 1988 and the FATF “40 Recommendations” compiled in 1990, and was enforced in July 1992. This law contains two items with regard to measures against drug crime proceeds as below.

(1) Criminalization of Money Laundering

The Anti-Drug Special Provisions Law for the first time criminalized the act of money laundering given the fact that money laundering had helped further (drug) crimes.

(a) Concealment of Drug Crime Proceeds etc. (Article 6)

The following acts are criminalized by this article: (i) Act of “disguising facts with respect to acquisition or disposition of drug crime proceeds etc.” (ii) Act of “concealing drug crime proceeds etc.” and (iii) Act of “disguising facts with respect to the source of drug crime proceeds etc.”

Examples of the act (i), “Act of disguising facts with respect to acquisition” is the act of depositing drug crime proceeds etc. under the name of another person, the act of manipulating the books by pretending profits were gained by legitimate business activities, or the like.

An example of the act (i), “Act of disguising facts with respect to disposition” is the act of purchasing goods under the name of another person, using drug crime proceeds etc. or the like.

Examples of the act (ii), “concealing” is the act such as physically concealing and sending money to a country or region where it is considerably difficult to trace the funds, or the like.

An example of the act (iii), “Act of disguising facts with respect to the source” is the drug purchaser’s act of pretending the payment for purchase is a repayment of a fictitious debt.

(b) Crime of Receipt of Drug Crime proceeds etc. (Article 7)

The act of “knowingly receiving drug crime proceeds etc.” is criminalized by this article. An act in which a main member of Boryokudan group receives money from those who works under him, knowing that the money has been obtained from drug crime, is an example of this case.

(2) Confiscation, Collection of Equivalent Value and Preservative Measures (Article 11 through 13, 19, 20)

Drug crime proceeds shall be confiscated. If it cannot be confiscated because, for example, it has already been consumed or the right thereof has been transferred, collection of equivalent value will be ordered. The system of confiscation and collection of equivalent value provided in Anti-Drug Special Provisions Law has been strengthened compared to the existing system of confiscation and collection of equivalent value in the Penal Code in that the target is not limited to tangible property, but is extended to deposit claims etc. and that confiscation and collection of equivalent value are compulsory. Moreover, it can be prohibited by court order to dispose of drug crime proceeds in order to ensure the confiscation of the proceeds which should be confiscated so that the disposal of drug crime proceeds prior to court decision can be avoided. As the risk of disposal by a criminal will be raised if he/she knows of the commencement of investigation, the court can issue a preservative order even before the prosecution upon request of a police officer etc. with a fixed period of 30 days, which could be renewable.

3. Outline of the Act on Punishment of Organized Crimes

The Act on Punishment of Organized Crimes was enacted in tandem with the extension of the scope of predicate offences in the revised FATF “40 Recommendations” of 1996 and the international agreement on the establishment of an FIU, and was enforced in February 2000. In terms of criminal proceeds regulations, this law is characterized by the extension of the scope of predicate offences from drug crimes to those and certain other serious crimes.

(1) Punishment of Money Laundering (Article 9 through 11)

According to the Act on Punishment of Organized Crimes, in addition to acts of disguising, concealing, and receiving stipulated in the Anti-Drug Special Provisions Law, changing a director etc. to get control of ownership of enterprise etc. by using illicit proceeds shall be punished as another type of money laundering.

The range of predicate offences that generate criminal proceeds is stipulated in the attachment to the Act on Punishment of Organized Crimes, to which additional predicate offences are added as necessary.

(2) Confiscation, Collection of Equivalent Value and Preservative Measures (Article 13 through 16, 22, 23, 42, 43)

The system of confiscation and collection of equivalent value provided in the Act on Punishment of Organized Crimes is subject to the discretion of the court, unlike the system provided in the Anti-Drug

Special Provisions Law. However, it has been strengthened compared to the existing system in the Penal Code in that the target is extended to monetary claims, assets obtained as the fruit of criminal proceeds are also within the scope, preservative measures have been established, and so on.

4. Outline of the Act on Punishment of Financing to Offences of Public Intimidation

The Act on Punishment of Financing of Offences to Public Intimidation was enacted in 2002 to develop necessary domestic laws to respond to international request related to the conclusion of International Convention for the Suppression of the Financing of Terrorism and other measures to prevent financing to terrorism.

The Act stipulates that certain criminal acts, such as murder and hijacking, with the aim to intimidate the public, national or local governments, or foreign governments and other entities are the “offences of public intimidation” (Article 1) and sets punishments for financing for the purpose of facilitating the commission of an offence of public intimidation.

In the Third Round of FATF Mutual Evaluation, Japan was evaluated that anti-terrorism measures were not sufficient partly because providing and collecting goods other than funds to support terrorists or funds collection for terrorists made by other than terrorists were not covered by the Act. Based on the evaluation, the Act on Punishment of Financing to Offences of Public Intimidation was amended in November 2014 to address the deficiencies pointed out by FATF, from the viewpoint that it is necessary to develop the international environment where terrorism is never countenanced.

Points of the amendments are that providing land, buildings, goods, services, and other benefits are covered and that those who finance for any person who intends to finance for any person who intends to commit an offense of public intimidation are also punished by the Act.

5. Crackdown on Offenses Related to Money Laundering

(1) Cleared Cases of Violation of the Act on Prevention of Transfer of Criminal Proceeds

The Act on Prevention of Transfer of Criminal Proceeds stipulates penal provisions to ensure the effectiveness of supervisory mechanisms put in place by the competent administrative authorities over specified business operators and penal provisions on the trade of deposit/savings passbooks. Among others, numerous money laundering cases involve the illicit use of deposit/savings passbooks in the name of another party, so the police are enhancing its efforts to crack down on such practices. (See Table 1-9)

Table1-9 [Number of Punishments Made under the Act on Prevention of Transfer of Criminal Proceeds]

| Category \ Year | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|------------|------------|--------------|--------------|--------------|
| Transfer etc. of deposit/savings passbooks (business) | 68 | 30 | 18 | 32 | 18 |
| Transfer etc. of deposit/savings passbooks (non-business) | 851 | 727 | 1,221 | 1,487 | 1,570 |
| Soliciting | 25 | 8 | 22 | 24 | 17 |
| Violation of rectification orders | 0 | 0 | 0 | 1 | 0 |
| Total | 944 | 765 | 1,261 | 1,544 | 1,605 |

Note: For actions committed before March 1, 2008, the amended The Customer Identification Act applies.

(2) Cleared Cases of Money Laundering under the Act on Punishment of Organized Crimes

The number of cleared cases of money laundering under the Act on Punishment of Organized Crimes in the last ten years is shown in Table 1-10.

Table1-10 [Number of Cleared Cases of Money Laundering under the Act on Punishment of Organized Crimes]

| Category \ Year | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Management Control through Illicit Proceeds (Article 9) | 0 (0) | 0 (0) | 1 (0) | 0 (0) | 1 (1) | 0 (0) | 1 (0) | 1 (0) | 0 (0) | 2 (0) |
| Concealment of Criminal Proceeds etc. (Article 10) | 50 (29) | 65 (21) | 91 (18) | 137 (35) | 134 (41) | 172 (49) | 139 (46) | 150 (43) | 158 (27) | 171 (35) |
| Receipt of Criminal Proceeds etc. (Article 11) | 15 (11) | 42 (27) | 42 (35) | 40 (25) | 38 (21) | 54 (41) | 65 (44) | 92 (38) | 80 (28) | 99 (40) |
| Total | 65 (40) | 107 (48) | 134 (53) | 177 (60) | 173 (63) | 226 (90) | 205 (90) | 243 (81) | 238 (55) | 272 (75) |

Note 1: Each number in brackets represents the number of cases conducted by Boryokudan gangsters.

2: Criminal proceeds etc. mean criminal proceeds, property derived from criminal proceeds and these proceeds mixed with other property (Article 2, paragraph 2 to 4, of the Act on Punishment of Organized Crimes).

(3) Cleared Cases of Money Laundering under the Anti-Drug Special Provisions Law

The number of cleared cases of money laundering under the Anti-Drug Special Provisions Law is shown in Table 1-11.

Table1-11 [Number of Cleared Cases of Money Laundering under the Anti-Drug Special Provisions Law]

| Category \ Year | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|--|----------|----------|-----------|----------|-----------|-----------|----------|----------|-----------|------------|
| Concealment of drug-related criminal proceeds etc. (Article 6) | 5 (3) | 3 (2) | 5 (3) | 5 (4) | 10 (4) | 5 (1) | 8 (4) | 8 (3) | 8 (2) | 6 (6) |
| Receipt of drug-related criminal proceeds etc. (Article 7) | 0 (0) | 2 (2) | 5 (2) | 2 (1) | 2 (1) | 5 (3) | 1 (1) | 0 (0) | 3 (2) | 4 (4) |
| Total | 5 (3) | 5 (4) | 10 (5) | 7 (5) | 12 (5) | 10 (4) | 9 (5) | 8 (3) | 11 (4) | 10 (10) |

Note 1: Each number in brackets represents the number of cases conducted by Boryokudan gangsters.

2: Drug-related criminal proceeds etc. mean drug offense proceeds, property derived from drug offense proceeds and these proceeds mixed with other property (Article 2, paragraph 3 to 5, of the Anti-Drug Special Provisions Law).

(4) Deprivation of Criminal Proceeds

A. Temporary Restraining Order before Prosecution

In order to prevent criminal proceeds from being abused to maintain and expand the powers of criminal organizations and being misused to invest in future criminal activities, it is important to deprive them. Confiscation and collection of equivalent value of criminal proceeds are conducted based on the court order. To ensure that criminal proceeds are not concealed or spent before the order is given, the police use the system of “Temporary Restraining Order for Confiscation before Institution of Prosecution” (hereafter referred to as “Temporary Restraining Order”) stipulated in the Act on Punishment of Organized Crimes and the Anti-Drug Special Provisions Law in order to confiscate criminal proceeds effectively.

(a) Temporary Restraining Order under the Act on Punishment of Organized Crimes

The number of Temporary Restraining Orders under the Act on Punishment of Organized Crimes in the last 10 years (requested by judicial police officer) is shown in Table 1-12.

Table 1-12 [Number of Temporary Restraining Orders Issued and Amounts Confiscated Before Prosecution under the Act on Punishment of Organized Crimes]

| 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|----------|----------|----------|-----------|------------|------------|------------|-------------|-------------|-------------|
| 7 (5) | 8 (0) | 9 (3) | 21 (7) | 44 (21) | 54 (23) | 70 (36) | 101 (30) | 148 (39) | 160 (54) |

Note 1: Only the cases requested by judicial police officers.

2: Each number in brackets represents the number of cases related to Boryokudan gangsters.

| Year | Total amount of credit | Others |
|------|------------------------|--|
| 2004 | ¥12,079,511 | |
| 2005 | ¥564,953,561 | |
| 2006 | ¥52,680,512 | |
| 2007 | ¥268,801,546 | |
| 2008 | ¥314,239,728 | |
| 2009 | ¥270,188,760 | Foreign currency US\$750 |
| 2010 | ¥160,597,150 | Land 605.95 m ² Building 1 Passenger vehicles 2 Necklace 1 |
| 2011 | ¥134,764,985 | |
| 2012 | ¥3,380,337,707 | Light vehicle 1 Passenger vehicle 1 Condominium 1 unit |
| 2013 | ¥362,399,577 | Land 522.64 m ² Passenger vehicle 1 |

From 2007 onward, the number of the Orders has increased substantially year by year. One of the reasons for this trend is that “Confiscation and Collection of Equivalent Value of the Crime Victim Property” related to crimes such as fraud, loan sharking offences and theft, which had not been subjects to be confiscated or collected, are now available due to the amendment of the Act on Punishment of Organized Crimes in December 2006. Another reason for the trend is that unauthorized adult entertainment business and unlicensed banking business were added to the predicate offences and the range of assets subject to confiscation was extended in July 2011.

(b) Temporary Restraining Order under the Anti-Drug Special Provisions Law

The number of Temporary Restraining Orders before Prosecution issued under the Anti-Drug Special Provisions Law in the last 10 years is shown in Table 1-13.

Table 1-13 [Number of Temporary Restraining Orders Issued and Amounts Confiscated Before Prosecution under the Anti-Drug Special Provisions Law]

| 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|----------|----------|----------|----------|----------|----------|-----------|-----------|-----------|----------|
| 5 (2) | 8 (5) | 3 (2) | 4 (3) | 7 (5) | 8 (5) | 13 (7) | 14 (4) | 16 (8) | 4 (4) |

Note 1: Only the cases requested by judicial police officers.

2: Each number in brackets represents the number of cases related to Boryokudan gangsters.

| Year | Total amount of credit | Others |
|------|------------------------|--|
| 2004 | ¥67,440,983 | |
| 2005 | ¥92,619,024 | |
| 2006 | ¥10,432,915 | |
| 2007 | ¥45,032,829 | |
| 2008 | ¥23,344,267 | |
| 2009 | ¥29,215,674 | |
| 2010 | ¥33,591,421 | Traveler's check US\$11,500 Necklace 1 Watches 2 Passenger vehicle 1 |
| 2011 | ¥11,678,611 | Foreign currency US\$5,000 Passenger vehicles 3 Key 1 |
| 2012 | ¥30,026,428 | |
| 2013 | ¥19,985,691 | |

B. Application of Provisions of Confiscation and Collection of Equivalent Value

(a) Application of Provisions of Confiscation and Collection of Equivalent Value under the Act on Punishment of Organized Crimes

The details of application of provisions of Confiscation and Collection of Equivalent Value under the Act on Punishment of Organized Crimes in general court procedures (first trials) are shown in the following Table 1-14.

Table1-14 [Statistics of the Application of Provisions of Confiscation and Collection of Equivalent Value under the Act on Punishment of Organized Crimes in General First Trials]

| Year | Confiscation | | Collection | | Total | |
|------|--------------|---------|------------|-----------|---------|-----------|
| | Persons | Amount | Persons | Amount | Persons | Amount |
| 2008 | 40 | 335,721 | 79 | 560,791 | 119 | 896,512 |
| 2009 | 98 | 105,774 | 129 | 3,414,672 | 227 | 3,520,446 |
| 2010 | 54 | 81,136 | 101 | 1,445,143 | 155 | 1,526,280 |
| 2011 | 93 | 60,899 | 93 | 819,683 | 186 | 880,582 |
| 2012 | 88 | 115,756 | 56 | 924,627 | 144 | 1,040,384 |

Note 1: Data from White Paper on Crime

2: Units are yen in thousands (amounts less than one thousand yen are rounded down).

3: When Confiscations and Collections of Equivalent Value were ordered in duplicate for accomplices, the amount was calculated excluding the duplicate amount.

4: Foreign currencies were exchanged into Japanese yen at the exchange rate of the date of the ruling.

(b) Application of Provisions of Confiscation and Collection of Equivalent Value under the Anti-Drug Special Provisions Law

The details of application of Provisions of Confiscation and Collection of Equivalent Value under the Anti-Drug Special Provisions Law in general court procedures (first trials) are shown in the following Table 1-15.

Table1-15 [Statistics of the Application of Provisions of Confiscation and Collection of Equivalent Value under the Anti-Drug Special Provisions Law in General First Trials]

| Year | Confiscation | | Collection | | Total | |
|------|--------------|--------|------------|-----------|---------|-----------|
| | Persons | Amount | Persons | Amount | Persons | Amount |
| 2008 | 61 | 93,695 | 362 | 1,391,545 | 423 | 1,485,240 |
| 2009 | 68 | 34,087 | 350 | 1,428,732 | 418 | 1,462,820 |
| 2010 | 46 | 27,660 | 328 | 1,260,916 | 374 | 1,288,576 |
| 2011 | 69 | 21,277 | 273 | 850,882 | 342 | 872,160 |
| 2012 | 63 | 20,852 | 241 | 361,862 | 304 | 382,714 |

Note 1: Data from White Paper on Crime.

2: Units are yen in thousands (amounts less than one thousand yen are rounded down).

3: When Confiscations and Collections of Equivalent Value were ordered in duplicate for accomplices, the amount was calculated excluding the duplicate amount.

4: Foreign currencies were exchanged into Japanese yen at the exchange rate of the date of the ruling.

(5) Rectification Order to Specified Business Operators

A. Collection of Reports and Opinion Statements by National Public Safety Commission and National Police Agency

When suspicion surfaces during the investigation of special fraud cases including remittance fraud and other crimes by the Prefectural Police with regard to the violation of the obligation of verification at the time of transaction and other matters prescribed in the Act on Prevention of Transfer of Criminal Proceeds, National Public Safety Commission and National Police Agency make requests to the alleged Specified Business Operators for submission of reports, gives directions to the relevant prefectural police on necessary inquiry, and makes opinion statements to competent administrative authorities.

The number of collection of reports, direction of investigation to Prefectural Police and opinion statements to competent administrative authorities is shown in Table 1-16.

Table1-16 [Number of Supervisory Actions]

| Category \ Year | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|------|------|------|------|------|
| Number of requests to submit reports to specified business operators | 16 | 7 | 5 | 9 | 11 |
| Number of directions to conduct inquiry to prefectural police | 2 | 10 | 3 | 3 | 1 |
| Number of opinion statements made to competent administrative authorities | 9 | 13 | 10 | 10 | 10 |

B. Issuing of Rectification Order by Competent Administrative Authorities Based on Opinion Statements

The number of Rectification Orders from competent administrative authorities to Specified Business Operators in light of Opinion Statements issued by National Public Safety Commission and National Police Agency is shown in Table 1-17.

Table 1-17 [Numbers of Rectification Orders issued by Competent Administrative Authorities based on Opinion Statements]

| Category \ Year | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|------|------|------|------|------|
| Rectification Orders issued by competent administrative authorities based on Opinion Statements | 7 | 3 | 9 | 9 | 7 |

6. Reports of Suspicious Transactions

(1) System Outline

A. Purpose

The Suspicious Transaction Reporting System aims to support investigation on money laundering and its predicate offences as well as terrorist financing, to prevent the misuse of financial or other services provided by specified business operators and to ensure soundness and trust of business activity.

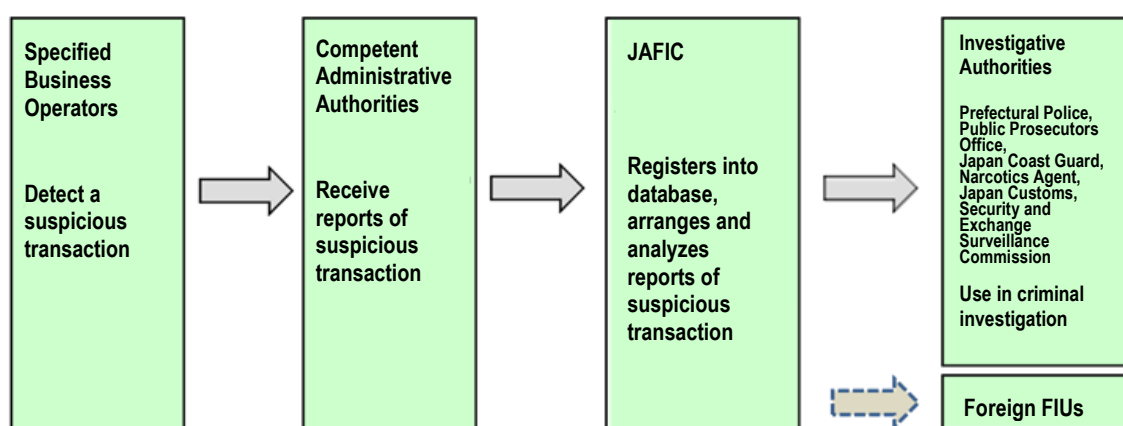
B. Flow of Suspicious Transaction Reporting

Information reported by specified business operators is collected at National Public Safety Commission / National Police Agency (JAFIC <Japan Financial Intelligence Center or Japan's Financial Intelligence Unit>) via the competent administrative authorities. JAFIC collates and analyzes suspicious transaction reports (STRs) to disseminate those deemed valuable to receiving investigative authorities such as the Prefectural Police, the Public Prosecutors Office, etc. for their use.

The receiving investigative authorities utilize STRs as clues for initiating an investigation against a specific suspicious activity, or identifying criminal proceeds or sources of illicit funds. JAFIC also discloses STRs related to cross-border transactions to interested foreign FIUs as necessary, in order to facilitate their analysis or investigation into global scale ML/TF.

Furthermore at JAFIC, a detailed analysis of STRs is carried out by using the information accumulated by the police, and the outcomes are disseminated to interested investigative authorities.

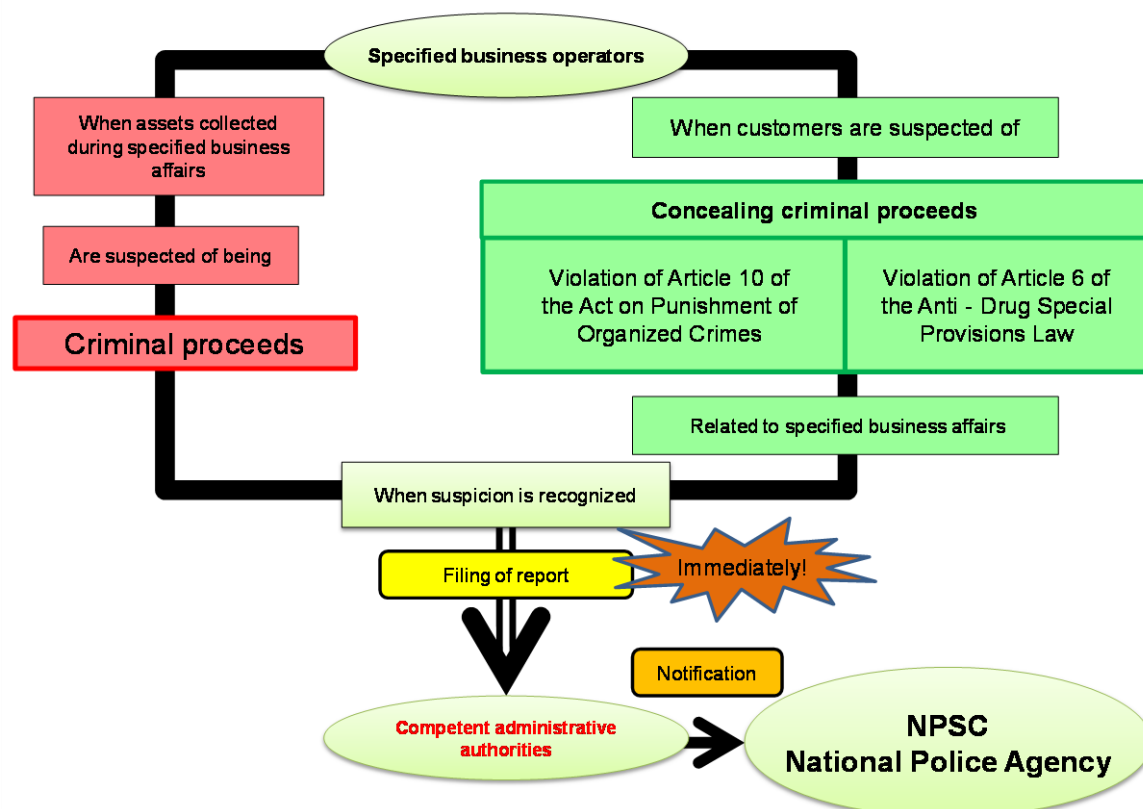
Table 1-18 [Flow of STRs from Specified Business Operators, through JAFIC to Investigative Authorities]



C. When STRs Are Required

Under Article 8 of the Act on Prevention of Transfer of Criminal Proceeds, it is required that specified business operators (excluding professions such as lawyers and certified public accountants) promptly file an STR with the competent administrative authorities when there is any suspicion, taking into account information obtained through CDD that assets they received could be criminal proceeds or that the customer could commit ML/TF (i.e. violations of Article 10 of the Act on Punishment of Organized Crimes or Article 6 of the Anti-Drug Special Provisions Law).

Table 1-19 [Cases where STRs Are Required]



D. List of Reference Cases of Suspicious Transactions

Specified business operators should determine whether there is any suspicious activity behind the transaction concerned based on their own knowledge and experience in their particular field of business, also taking into account other relevant factors including the nature of transactions or types of customers. In other words, specified business operators should determine whether the transactions are suspected of being related to ML/TF in the context of each transaction conducted. However, not all of them identify ML/TF risks in every transaction and they may find it difficult to make an appropriate determination. Therefore, in Japan, competent administrative authorities have announced “reference cases of suspicious transactions,” based on the characteristics of respective specified business operators.

These reference cases indicate samples of suspicious transactions and are intended merely for reference. This means, it is necessary for the specified business operators to determine whether each transaction is suspected of being related to ML/TF in the context of relevant factors including the nature of transactions or types of customers. They use these reference cases for detecting suspicious transactions in the course of conducting daily transactions. While all the transactions that appear to match the listed samples in the reference cases do not necessarily have to be reported as suspicious, any transaction that is out of the listed samples, but specified business operators determine that is suspicious, should be reported.

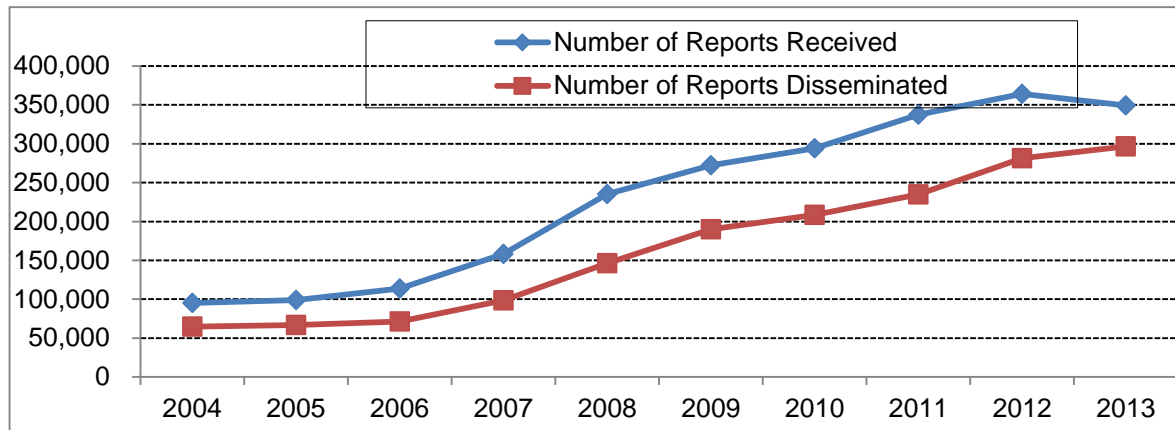
(2) Situation of STR Filings

A. Transition of the Number of Reports Received

The number of STRs received and disseminated in the past ten years is shown in Table 1-20.

Table1-20 [Trend Diagram of Number of STRs (2004-2013)]

(Number of



| | | | | | | | | | | |
|---------------------------------------|--------|--------|---------|---------|---------|---------|---------|---------|---------|---------|
| Number of Reports Received | 95,315 | 98,935 | 113,860 | 158,041 | 235,260 | 272,325 | 294,305 | 337,341 | 364,366 | 349,361 |
| Number of Reports Disseminated | 64,675 | 66,812 | 71,241 | 98,629 | 146,330 | 189,749 | 208,650 | 234,836 | 281,475 | 296,501 |

Note 1: "Number of Reports Received" (2004-2013) is the total number of the reports received by the Financial Services Agency (JAFIO) until March 2007 and those received by the National Public Safety Commission/the National Police Agency (JAFIC) after April 2007.

2: "Number of Reports Disseminated" (2004-2013) is the total number of the reports disseminated by JAFIO to the National Police Agency until March 2007 and those disseminated by JAFIC to law enforcement authorities after April 2007.)

B. Transition of the Number of Received Reports by Business Types

The number of received STRs by business types of specified business operators in the past 5 years is shown in Chart 1-21.

Table1-21 [Number of Received STRs by Business Types]

| Category \ Year | 2009 | | 2010 | | 2011 | | 2012 | | 2013 | |
|--|-------------------|--------|-------------------|--------|-------------------|--------|-------------------|--------|-------------------|--------|
| | Number of reports | % | Number of reports | % | Number of reports | % | Number of reports | % | Number of reports | % |
| Financial Institutions etc. | 270,628 | 99.4% | 292,529 | 99.4% | 334,903 | 99.3% | 360,513 | 98.9% | 344,147 | 98.5% |
| Deposit taking Institutions | 265,051 | 97.3% | 283,971 | 96.5% | 324,600 | 96.2% | 348,831 | 95.7% | 329,127 | 94.2% |
| Banks etc. | 253,668 | 93.1% | 272,215 | 92.5% | 311,298 | 92.3% | 333,868 | 91.6% | 313,435 | 89.7% |
| Shinkin Banks and Credit Cooperative | 10,941 | 4.0% | 11,156 | 3.8% | 12,453 | 3.7% | 13,521 | 3.7% | 14,089 | 4.0% |
| Labour Banks | 161 | 0.1% | 243 | 0.1% | 248 | 0.1% | 357 | 0.1% | 290 | 0.1% |
| Norinchukin Banks etc. | 281 | 0.1% | 357 | 0.1% | 601 | 0.2% | 1,085 | 0.3% | 1,313 | 0.4% |
| Insurance Companies | 183 | 0.1% | 202 | 0.1% | 677 | 0.2% | 1,837 | 0.5% | 3,002 | 0.9% |
| Financial Instruments Business | 3,821 | 1.4% | 5,666 | 1.9% | 6,758 | 2.0% | 5,998 | 1.6% | 7,373 | 2.1% |
| Money Lending Business | 1,148 | 0.4% | 634 | 0.2% | 581 | 0.2% | 1,628 | 0.4% | 1,872 | 0.5% |
| Funds Transfer Service Providers | | | 73 | 0.0% | 344 | 0.1% | 380 | 0.1% | 363 | 0.1% |
| Commodity Futures Traders | 7 | 0.0% | 13 | 0.0% | 5 | 0.0% | 3 | 0.0% | 53 | 0.0% |
| Currency Exchanging Operators | 418 | 0.2% | 1,970 | 0.7% | 1,937 | 0.6% | 1,835 | 0.5% | 2,119 | 0.6% |
| Electronic Monetary Claim Recording Institutions | 0 | 0.0% | 0 | 0.0% | 1 | 0.0% | 1 | 0.0% | 1 | 0.0% |
| Other | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% | 237 | 0.1% |
| Financial Leasing Operators | 60 | 0.0% | 83 | 0.0% | 45 | 0.0% | 109 | 0.0% | 62 | 0.0% |
| Credit Card Operators | 1,510 | 0.6% | 1,617 | 0.5% | 2,350 | 0.7% | 3,664 | 1.0% | 5,086 | 1.5% |
| Building lots and buildings business operators | 33 | 0.0% | 21 | 0.0% | 5 | 0.0% | 10 | 0.0% | 1 | 0.0% |
| Dealers in Precious Metals and Stones | 0 | 0.0% | 19 | 0.0% | 4 | 0.0% | 28 | 0.0% | 7 | 0.0% |
| Postal Receiving Service Providers | 92 | 0.0% | 36 | 0.0% | 34 | 0.0% | 42 | 0.0% | 57 | 0.0% |
| Telephone Receiving Service Providers | 2 | 0.0% | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% | 0 | 0.0% |
| Telephone Forwarding Service Providers | | | | | | | | | 0 | 0.0% |
| Other | | | | | | | | | 1 | 0.0% |
| Total | 272,325 | 100.0% | 294,305 | 100.0% | 294,305 | 100.0% | 294,305 | 100.0% | 294,305 | 100.0% |

(3) Analysis by JAFIC

JAFIC comprehensively analyzes STRs related to a customer by utilizing various information such as STRs related to the said customer which have been made, filed police information and public information, and tries to identify funds transfers related to anti-social forces such as Boryokudan.

To date, JAFIC has come to recognize the fact that anti-social forces were involved in the legitimate financial services, for example, investing money by some means using affiliated businesses or investment partnerships, or repeatedly conducting a large amount of cross-border wire transfers. Although it can be assumed that the source of funds managed by anti-social forces originate mainly from criminal activities, in most cases, the source is unclear through complicated funds transfers and layering of investment in some ways, and therefore the connection with the predicate offences is obscured. The recent case studies show that anti-social forces manage to hide their identities using their stakeholders including affiliated businesses as a front of anti-social forces, and engage in funds management in consultation with experts of that area. This is one of the main factors that may make quite difficult to identify the fund raising activities of anti-social forces.

JAFIC is taking strong initiatives to conduct on-going tracing of funds transfers of anti-social forces and to identify their fund raising activities by utilizing results of STR analysis, coordinating various cooperative works with Law Enforcement Authorities (hereinafter referred to as “LEAs”) including investigative authorities, customs and SESC or foreign FIUs. These efforts contribute towards enhanced crackdown on various crimes.

(4) Utilization of Reports by LEAs

JAFIC collects, arranges, and analyzes all STRs and disseminates the outcome to LEAs, which will contribute to the investigation of ML/TF, predicate offences or other offenses. The receiving LEAs are the Prefectural Police, Public Prosecutors Office, Narcotics Control Department, Japan Coast Guard, Japan Customs and SESC.

The number of reports on suspicious transactions disseminated to LEAs has kept growing every year (See Table1-20).

A. Prefectural Police

(a) Transition of the Number of Cleared Cases Initiated with STRs

The number of cases cleared by Prefectural Police and initiated with information in STRs (hereinafter referred to as “STR-initiated cases”) has increased every year. The number of STR-initiated cases by crime types in the past five years is shown in table 1-22.

Table1-22 [Number of STR-initiated Cases by Crime Types]

| Crime | Year | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|------|------------|------------|------------|------------|------------|
| Fraud | | 265 | 258 | 360 | 470 | 453 |
| Violation of the Act on Prevention of Transfer of Criminal Proceeds | | 48 | 76 | 145 | 239 | 321 |
| Fraud and violation of the Act on Prevention of Transfer of Criminal Proceeds | | 0 | 0 | 0 | 0 | 1 |
| Fraud and violation of the Investment Deposit and Interest Rate Act | | 0 | 0 | 0 | 0 | 1 |
| Violation of the Immigration Act | | 4 | 5 | 6 | 106 | 123 |
| Violation of the Stimulants Control Act | | 0 | 16 | 17 | 16 | 17 |
| Violation of the Narcotics and Psychotropic Control Act | | 0 | 0 | 0 | 0 | 1 |
| Violation of the Narcotics and Psychotropic Control Act, and the Pharmaceutical Affairs Act | | 0 | 0 | 0 | 0 | 1 |
| False entries in and use of the original of an electromagnetic notarized deeds | | 0 | 3 | 3 | 1 | 8 |
| Forgery and use of private documents and fraud | | 0 | 0 | 0 | 4 | 2 |
| False entries in and use of the original of an electromagnetic notarized deeds and fraud | | 0 | 0 | 0 | 1 | 1 |
| False entry in licenses | | 0 | 0 | 0 | 0 | 1 |
| Use of counterfeit signed private documents | | 0 | 0 | 0 | 0 | 1 |
| Use of counterfeit signed private documents and fraud | | 0 | 0 | 0 | 0 | 1 |
| Use of counterfeit securities and fraud | | 0 | 0 | 0 | 0 | 1 |
| Use of unauthorized electromagnetic records of payment cards and fraud | | 0 | 0 | 1 | 1 | 1 |
| Violation of the Money Lending Business Act and Investment Deposit and Interest Rate Act | | 5 | 2 | 5 | 3 | 5 |
| Violation of the Money Lending Business Act | | 1 | 2 | 3 | 2 | 3 |
| Violation of the Interest Deposit and Interest Rate Act | | 3 | 5 | 2 | 1 | 1 |
| Violation of the Banking Act | | 1 | 2 | 3 | 1 | 5 |
| Theft | | 2 | 1 | 0 | 2 | 3 |
| Retaining of stolen goods | | 0 | 0 | 0 | 0 | 1 |
| Forgery and use of signed private documents and fraud, and fraud and violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds etc.) | | 0 | 0 | 0 | 0 | 1 |
| Fraud and violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds etc.) | | 0 | 0 | 0 | 2 | 1 |
| Purchase of stolen goods with compensation and violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds etc.) | | 0 | 0 | 0 | 0 | 1 |
| Violation of the Trademark Act and the Act on Punishment of Organized Crimes (concealment of criminal proceeds etc.) | | 0 | 0 | 0 | 0 | 1 |
| Violation of the Trademark Act | | 0 | 2 | 1 | 1 | 1 |
| Violation of the Copyright Act | | 0 | 0 | 0 | 1 | 1 |
| Extortion | | 2 | 2 | 2 | 1 | 1 |
| Embezzlement | | 0 | 0 | 0 | 0 | 1 |
| Others | | 6 | 16 | 22 | 34 | 2 |
| Total | | 337 | 390 | 570 | 886 | 962 |

Note 1: Violation of the Act on Prevention of Transfer of Criminal Proceeds includes violation of the Customer Identification Act.

(b) Transition of the Number of Cleared Money Laundering Cases Initiated with STRs

The number of cases cleared by Prefectural Police and initiated with STRs in the past 5 years (including cases where cleared predicate offenses initiated with STRs finally led to clearance of money laundering) is shown in Table 1-23. There is no cleared case related to terrorist financing so far.

Table1-23 [Number of Cleared Money Laundering Cases Initiated with STRs]

| Predicate offenses | Year | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|------|------|------|------|------|------|
| Fraud | | 4 | 10 | 9 | 6 | 6 |
| Violation of the Banking Act | | 0 | 0 | 0 | 0 | 3 |
| Violation of the Money Lending Business Act and the Investment Deposit and Interest Rate Act | | 4 | 5 | 5 | 3 | 1 |
| Violation of the Money Lending Business Act | | 0 | 0 | 0 | 1 | 1 |
| Violation of the Trademark Law | | 1 | 0 | 1 | 1 | 1 |
| Others | | 0 | 2 | 2 | 4 | 0 |
| Total | | 9 | 17 | 17 | 15 | 12 |

(c) Transition of the Number of Cases that Led to Confiscation and Collection of Equivalent Value Initiated with STRs

The number of cases that led to Confiscation and Collection of Equivalent Value initiated with STRs in the past 5 years is shown in Table 1-24.

Table1-24 [Number of Cases that Led to Confiscation and Collection of Equivalent Value Initiated with STRs]

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|---------------------------------------|------|------|------|------|------|
| Confiscation | 0 | 5 | 5 | 8 | 4 |
| Collection of Equivalent Value | 0 | (4) | 1(4) | (5) | 0 |
| Total | 0 | 5(4) | 6(4) | 8(5) | 4 |

Note 1: The number of collection of equivalent value in brackets is the number of cases overlapped with confiscation and excluded.

2: Calculated based on the year of clearance.

(d) Number of STRs Used for Investigative Purposes

In the investigations not initiated with STRs, STRs are still a valuable source of information used by Prefectural Police in countering organized crime.

The number of STRs used for investigative purposes by Prefectural Police in the past 5 years is shown in Table 1-25.

Table1-25 [Number of STRs Used for Investigative Purposes]

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|--------|--------|---------|---------|---------|
| Number of STRs used in investigation of STR-initiated cases | 1,261 | 1,642 | 2,674 | 3,811 | 3,781 |
| Number of STRs used in investigation of cases other than STR-initiated cases | 68,680 | 86,418 | 103,103 | 184,510 | 190,063 |
| Total | 69,941 | 88,060 | 105,777 | 188,321 | 193,844 |

Note 1: The number of STRs used in investigation of STR-initiated cases is the total number of STRs used for the clearance of STR-initiated cases.

2: In the case where investigation was initiated with STRs but the case has not been cleared, the STRs are included in the number of STRs used in investigation of cases other than STR-initiated cases.

B. Public Prosecutors Office

Public Prosecutors Office uses STRs in cases sent by investigative authorities such as the police as well as in conducting its own secret investigation. STRs are used to corroborate statements by offenders and associated parties and to identify bank accounts suspected of misuse in crime, and are useful for identifying criminal facts in investigating further crimes and accomplices.

STRs are also used to obtain information on Boryokudan and other specified criminal organizations and to trace their money flow, and are useful for monitoring their activities.

C. Narcotics Control Department

The Health, Labour and Welfare Ministry's Narcotics Control Department utilizes STRs for investigations such as identifying transfer of drug-related criminal proceeds in narcotics smuggling cases, and promotes drug crime investigations, including the arrest of offenders and confiscation of such proceeds.

D. Japan Coast Guard

Japan Coast Guard utilizes STRs to promote investigations of organized smuggling of restricted items and immigrants.

It also utilizes foreign FIU information provided through JAFIC at its request for investigations into such smuggling organizations.

E. Customs

Customs makes and shares a database of STRs. STRs are useful for investigations of violating the Customs Act in collating with various types of own information obtained by Customs. Customs takes strong initiatives to stop smuggling of items such as ones that may threaten public safety and security.

F. Securities and Exchange Surveillance Commission (SESC)

SESC conducts investigations, with a view to criminal prosecution, of malicious activities, which harm a fairness of transactions including financial instrument transactions, such as fraudulent securities reports (fraudulent accounting), insider trading, market manipulation and other fraudulent means.

While SESC engages in identifying criminal facts such as unfair transactions by identifying and analyzing independently relevant bank accounts or securities accounts in the course of investigations, STRs are also utilized for identifying the facts of the offences.

SESC also utilizes foreign FIU information provided through JAFIC at its request for investigations into the violation of Financial Instruments and Exchange Act.

7. Progress of the International Cooperation

(1) Information Exchange with Foreign FIUs

A. Establishment of the Framework for Exchange of Information

It is necessary to exchange information on suspicious transactions with foreign FIUs timely in order to detect ML/TF by appropriately tracing criminal proceeds or terrorist financing transferred across borders.

On the other hand, Article 13 of the Act on Prevention of Transfer of Criminal Proceeds stipulates that the National Public Safety Commission (for which JAFIC serves as a secretariat) may disclose information on suspicious transactions to foreign FIUs on condition that there is a framework governing the restrictions on the use of the disclosed information in foreign countries.

In response, JAFIC has established the necessary framework by exchanging a document specifying the restrictions on the use of disclosed information and other matters with foreign FIUs.

JAFIC has been coping with the negotiations for establishing the frameworks for information exchange with numerous foreign FIUs in order to enable to constructively exchange information with them.

From its establishment of April 2007 till the end of 2013, JAFIC has set the frameworks for information exchange with the FIUs of 70 jurisdictions. (See Table 1-26).

Table 1-26 [Jurisdictions with which JAFIC Established the Frameworks for Information Exchange between FIUs]

| Year of Agreement | Countries and Regions |
|-------------------|--|
| 2007 | Hong Kong, Thailand, Malaysia, Belgium, Australia, U.S., Singapore, Canada, Indonesia, U.K., Brazil, Philippines |
| 2008 | Switzerland, Italy, Portugal, Korea, Romania |
| 2009 | Paraguay, France, Qatar |
| 2010 | Turkey, Mexico, Luxembourg, Chile, Finland, India |
| 2011 | Nigeria, China, Cambodia, Macau, Cyprus, Argentina, Spain, San Marino |
| 2012 | Montenegro, Netherlands, Germany, Cayman Islands, Czech, Mongolia, Aruba, Colombia, Lebanon, Sweden, Peru, Armenia |
| 2013 | British Virgin Islands, Malta, Israel, Bermuda, Liechtenstein, Bangladesh, Sri Lanka, Denmark, Bolivia, Russia, Slovenia, Seychelles, Senegal, Costa Rica, Bahrain, Latvia, Vietnam, Turkmenistan, Poland, Isle of Man, Jersey, Guernsey, New Zealand, Nepal |

B. Situation of Information Exchange

JAFIC exchanges suspicious transaction information with foreign FIUs in a positive and expeditious manner.

As JAFIC has allocated sufficient resources to STR analysis, JAFIC has made actively arrangements on information exchange with foreign FIUs. (See Table 1-27).

Table1-27 [Number of Information Exchange between JAFIC and Foreign FIUs]

| Category \ Year | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|------|------|------|------|------|
| Number of requests for information from foreign FIUs to JAFIC | 47 | 54 | 63 | 53 | 73 |
| Number of requests for information from JAFIC to foreign FIUs | 51 | 78 | 136 | 100 | 159 |
| Number of spontaneous disclosure from foreign FIUs to JAFIC | 18 | 23 | 18 | 29 | 28 |
| Number of spontaneous disclosure from JAFIC to foreign FIUs | 6 | 7 | 16 | 9 | 21 |
| Total | 122 | 162 | 233 | 191 | 281 |

C. Discussions

In order to facilitate exchange of information, JAFIC has carried out various activities including having discussions to promote information exchange, learning analysis technique in foreign FIUs, studying how the foreign LEAs utilize STRs and visiting FIUs of jurisdictions where there is a need for close coordination especially from the viewpoint of effective AML/CFT and with which JAFIC has not established the framework for information exchange yet.

(2) International Cooperation in Criminal Justice

A. Extradition of Fugitive

When extradition is requested by a foreign country, Japan may accept the request, based on the requirements and procedures of the Act of Extradition, under the assurance of reciprocity, even if extradition treaty is not concluded with the country. Meanwhile, Japan may also accept an extradited fugitive from a foreign country to the extent authorized by the country's legislation, even if extradition treaty is not concluded with the country.

In addition, Japan has concluded extradition treaty with U.S. and Korea. These treaties oblige mutual extradition under certain requirements and enable a requested country to extradite a citizen of the country to a requesting country at the discretion of the requested country, although extraditing Japanese citizen to a foreign country is not allowed under the Act of Extradition of Japan in principle. This is to enhance international cooperation between contracting countries.

Table1-28 [Number of Extradited Fugitives]

| Category | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|--|------|------|------|------|------|------|------|------|------|------|
| Number of Extradited Fugitives from Foreign Countries to Japan | 2 | 1 | 2 | 0 | 5 | 5 | 3 | 3 | 1 | 0 |
| Among Them, from Countries with Treaty | 2 | 1 | 2 | 0 | 4 | 5 | 2 | 2 | 1 | 0 |
| Number of Extradited Fugitives to Foreign Countries from Japan | 0 | 0 | 3 | 1 | 2 | 2 | 0 | 0 | 1 | 1 |
| Among Them, to Countries with Treaty | 0 | 0 | 3 | 1 | 1 | 2 | 0 | 0 | 1 | 1 |

Note: Data from Criminal Affairs Bureau, Ministry of Justice and Criminal Affairs Bureau, National Police Agency

B. Mutual Legal Assistance (MLA)

As well as extradition, when a foreign country requests Japan to provide evidence which is necessary to investigate criminal offenses in the country, Japan may assist the investigation through diplomatic channels, under the assurance of reciprocity, based on the requirements and procedures of the Act on International Assistance in Investigation and Other Related Matters, even if Treaty on Mutual Legal Assistance (MLA) is not concluded with the country. Meanwhile, Japan may also receive evidence necessary for investigation from a foreign country to the extent authorized by the country's legislation.

Furthermore, Japan has concluded MLA Treaty/Agreement with U.S., Korea, China, Hong Kong, EU and Russia. The Treaty/Agreement obliges MLA between countries, as long as there are no grounds for refusal. Other than that, central authority is designated based on such Treaty/Agreement. It is for prompt and effective investigative assistance between central authorities, without diplomatic channels. (In Japan, central authority competent to make a request is Minister of Justice and National Public Safety Commission or person designated by them. To accept a request, Minister of Justice or the person designated by Minister of Justice is central authority.) As a result of promoting to conclude such MLA Treaty/Agreement, Japan may provide MLA, where the Treaty/Agreement obliges MLA as long as there are no grounds for refusal, with more than 30 countries without diplomatic channel.

Table11-29 [Number of Requests Made for MLA (2003-2012)]

| Category | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|-----------------------------------|------|------|------|-----------|------------|------------|------------|------------|------------|------------|
| Number of Requests Japan Made | 11 | 5 | 8 | 16 (4) | 12 (6) | 10 (3) | 9 (5) | 9 (6) | 10 (8) | 17 (12) |
| | 10 | 14 | 14 | 30 (5) | 28 (14) | 40 (24) | 36 (30) | 60 (39) | 46 (34) | 62 (37) |
| Number of Requests Japan Received | 21 | 24 | 71 | 35 (2) | 34 (12) | 28 (11) | 26 (9) | 40 (7) | 55 (37) | 98 (76) |

Note 1: Data from Criminal Affairs Bureau, Ministry of Justice and Criminal Affairs Bureau, National Police Agency

2: In "Number of requests Japan made", upper column is the request from the public prosecutors office and the lower column is the request from police etc.

3: () means numbers of requests with contracting countries of MLA Treaty/Agreement. The numbers are included figures.

C. Judicial Assistance

Judicial assistance means international cooperation based on the commission of court, regarding service of documents related to trial or examination of evidence. In 2012, with regard to commissioned judicial assistance to Japanese court from foreign count, there were 15 cases of service of documents and 3 cases of examination of evidence. With regard to commissioned judicial

assistance to foreign courts or consuls and the like from Japanese court, there were 4 cases of service of documents (Data from General Secretariat, the Supreme Court).

D. Investigative Cooperation through the International Criminal Police Organization (ICPO)

In international cooperation for investigation, information exchange is conducted between police organizations through the International Criminal Police Organization (ICPO) channel.

ICPO is an international body consisting of police organizations of each country. It carries out various activities to establish and develop effective system which ensures and promotes the widest possible mutual assistance between police organizations as well as prevents and fights crimes.

Transition of the number of investigative cooperation through ICPO in Japan is shown in Table 1-30.

Table 1-30 [Transition of the Number of Investigative Cooperation through ICPO]

| Category \ Year | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Number of Investigative Cooperation Request made | 534 | 485 | 483 | 458 | 441 | 476 | 429 | 412 | 504 | 473 |
| Number of Investigative Cooperation Request received | 1,085 | 856 | 1,193 | 995 | 1,013 | 1,079 | 2,213 | 2,343 | 2,752 | 2,920 |

E. International Transfer of Sentenced Persons

The system for International Transfer of Sentenced Persons transfers sentenced persons who were rendered a sentence in a foreign country, etc. and incarcerated serving the sentence in the prison, etc. of the country, etc., back to their home countries, etc. and allows them to complete their sentence there in order to encourage their reform and rehabilitation and smooth re-entry into society and to enhance international cooperation in the criminal justice field.

Table 1-31 [Number of Sentenced Persons Transferred by Country Where They Served Their Sentences and Type of Offence (2012)]

| Country where sentence were served | Number of persons | Homicide | Robbery | Robbery causing death | Robbery causing injury | Theft | Fraud | Firearms and Swords Control Act | Stimulants Control Act | Cannabis Control Act | Immigration Control Act | Customs Act | Other |
|---|--------------------------|-----------------|----------------|------------------------------|-------------------------------|--------------|--------------|--|-------------------------------|-----------------------------|--------------------------------|--------------------|--------------|
| Korea | 10 | 5 | 3 | 1 | 2 | 3 | 1 | 3 | 0 | 0 | 6 | 1 | 9 |
| Israel | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 1 | 0 | 2 | 0 |
| U. K. | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3 | 0 | 0 | 3 | 0 |
| Spain | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 1 | 0 |
| Canada | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3 | 0 | 0 | 3 | 0 |
| U. S. | 2 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 1 | 1 | 0 | 1 | 1 |
| Total | 21 | 5 | 3 | 1 | 2 | 3 | 2 | 3 | 10 | 2 | 6 | 11 | 10 |

Note: Persons sentenced for multiple offences are counted in each type of offence.

Chapter 2 Risk Assessment of Money Laundering and Terrorist Financing

Section 1 Risk Assessment Method

1. Authority that Conducted Risk Assessment

For risk assessment, it is important to identify, assess and understand ML/TF risks and properly evaluate ML/TF risks analyzing factors such as vulnerabilities including transactions, products and services handled by specified business operators which can be misused for ML/TF. From this point of view, Japan has established a working group, consisting of officers from ministries and agencies relevant to AML/CFT. The working group, as a formal inter-agency steering body, conducted national risk assessment.

The chairperson of the working group was the Director for Prevention of Money Laundering, Organized Crime Department, Criminal Affairs Bureau of National Police Agency, who was in charge of FIU. The chairperson coordinated the whole work for risk assessment.

2. Process of Risk Assessment

This is the first risk assessment of ML/TF in Japan. So the working group started from collecting data related to ML/TF context and AML/CFT measures, such as statistics and case reports which were possessed by related ministries and agencies, and tried to identify the main risk scenarios to analyze.

In addition, the private sectors were involved in the risk assessment. The working group collected information related to the risk assessment from private sectors. In identification process, questionnaire and hearing were conducted to industry associations, self-regulatory bodies (SRBs) and specified business operators through the competent administrative authorities. The inquiry included their AML/CFT efforts and awareness of vulnerability of the transactions, products and services they handle.

In the risk assessment, the FATF Recommendations, items pointed out in the third round of FATF Mutual Evaluation of Japan (2008) and FATF guidance were reviewed as valid reference materials.

Based on these materials such as statistics and documents, in order to understand the nature, sources, likelihood and consequences of ML/TF risks, the working group comprehensively analyzed ML/TF risk factors such as transactions, products and services handled by business operators. Taking the results found during the analysis process, ML/TF risks in Japan were evaluated.

3. Analytical Method for Risks

(1) Analysis of Factors to Enhance ML/TF Risks

To analyze factors which may enhance ML/TF risk, taking into account reference materials such as FATF's revised "40 recommendations", Japan categorized the identified ML/TF risks into five factor types as "transaction forms", "customer types", "countries/regions", "product/service types", and "transactions utilizing new technology". In each category, taking into account factors including the ML/TF contexts and practical businesses in Japan ^{*1}, risk factors were identified, analyzed and evaluated one by one.

Specifically, each risk factor was evaluated by analyzing mainly based on following items.

- Inherent risks potentially misused for ML/TF
- Measures taken to mitigate the inherent risks (for example, legal requirements to specified business operators, guidance and supervision to specified business operators by competent administrative authorities, self-regulating efforts by industry associations, SRBs and specified business operators)
- Situation of STRs
- Cleared cases of ML/TF

^{*1} In addition, size of specified business operators is also a factor to enhance ML/TF risks. The more transactions are conducted, the more difficult integrated criminal proceeds are identified and traced. In other words, the bigger the business grows, the higher ML/TF risks exist in general. To mitigate such risks, the Act on Prevention of Transfer of Criminal Proceeds requires business operators to properly conduct CDD measures including verification at the time of transaction and to implement an ongoing employee program as well as to develop other necessary AML/CFT internal control system. This is the approach to mitigate ML/TF risks by developing AML/CFT internal control system consistent with the size of business.

To identify new trends and risks of ML/TF, Japan focused STRs and cleared cases of ML/TF in the past 3 years (2011- 2013) and analyzed them in quantitative and qualitative ways.

(2) Analysis of Factors to Mitigate ML/TF Risks

Some transactions, products, and services have low risk to be misused for ML/TF because of factors such as the types of customers and nature of transactions.

In Article 4 of the Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds (hereinafter referred to as “Ordinance”), transactions that have low risk to be misused for the transfer of criminal proceeds are described.

Japan identified and categorized factors to mitigate risks, and analyzed the transactions provided for in Article 4 of the Ordinance in the view of applicability to those categorized factors.

4. Hearing Opinions from Experts/Specialists

In the national risk assessment, Japan heard opinions from experts including financial/economic academics, bankers and specialists with in-depth knowledge of AML/CFT in order to ensure the objectivity of the assessment and to prevent the deviation from the ML/TF risk which private sectors faced in practical businesses.

5. Risk Assessment of Terrorist Financing

Factors associated with terrorist financing may be different from those associated with money laundering. For example, funds used for terrorist financing are not always derived from criminal proceeds, but they may come from legal sources. Nonetheless, in the view of criminal intent where terrorist financiers, like money launderers, may misuse various transactions, products and services when conducting fund transfer, in order to prevent it from being detected, Japan determined to assess the risks of ML/TF alike.

Section 2 Risk Assessment

1. Risk Assessment Focusing on Transaction Types

(1) Non-Face-to-Face Transactions

A. Present Situation

With the factors including development of Information Technology, service improvement by specified business operators for customer convenience, non-face-to-face transaction has been expanding through the Internet and other facilities.

For example, deposit-taking institutions provide convenient services where customers can open bank accounts, remit money, or conduct other financial transactions through the internet as well as they can use mail order service, which enables to apply for opening of bank accounts by mail. At securities companies, customers can conduct transactions such as opening of securities accounts or share trading through the Internet.

On the other hand, as business operators don't see their customers and it is difficult to verify their identities including age, sex, appearance or behaviors directly in non-face-to-face transactions, they cannot judge whether the customers give false information on their identification data or whether they pretend to be another person. In addition, where the customers use the copies of identification documents, business operators cannot detect whether such documents are falsified as they don't verify the qualities of the original documents by the feel. These facts show that non-face-to-face transactions may limit preventive measures to detect customers who pretend to be another person and may deteriorate accuracy of customer identification.

Therefore, compared with face-to-face transaction, non-face-to-face transaction may allow perpetrators to keep anonymity, to falsify customer identification data such as name and address and to pretend to be fictitious or another person. Specifically, they can give false information on customer identification data or can pretend to be another person in non-face-to-face transactions by means such as sending the copies of falsified identification documents.

The Act on Prevention of Transfer of Criminal Proceeds stipulates methods of verification of customer identification data. Followings are methods other than the case where specified business operators check identification documents directly at the verification of customer identification data. These methods are; (i) where specified business operators receive the identification documents or the copies thereof sent from customers, they send the transaction documents to the residence of the customers indicated in the identification documents or the copies thereof by mailing such as registered mail as a postal item requiring no forwarding or the like. (ii) postal service providers visit the residence of customers on behalf of specified business operators, verify identification documents showed by the customers and inform specified business operators of customer identification data such as name. (iii) by electronic signature.

In addition, the Guidelines for Supervision by the Financial Services Agency ^{*1} provides red-flag indicators to properly supervise financial institutions. One of the indicators refers to non-face-to-face transaction through the Internet where financial institutions should conduct appropriate measures consistent with transaction types on verifying at the time of transaction.

In this regard, in the third round of FATF Mutual Evaluation, Japan was pointed out that “The identification and verification requirements for non-face-to-face customers are insufficient”, “Financial institutions should be required to conduct additional secondary verification for non-face-to-face customers”.

B. Case

Cases where non-face-to-face transactions were misused for offenses include a case where a person, who borrowed money from loan shark but was not able to repay, pretended as a fictitious person and opened a bank account through non-face-to-face transaction, and provided the account to the loan shark as substitute for repayment.

Cases where non-face-to-face transactions were misused for money laundering include a case where an account was opened in the name of another party through non-face-to-face transaction and was misused to conceal criminal proceeds.

[Case 1] Case of misusing accounts that were opened in non-face-to-face transactions by pretending another person, for concealing criminal proceeds from selling stolen goods

(Concealment of criminal proceeds related to car navigation system theft)

Unemployed men stole car navigation systems and sold them to traders. They had the traders remit about 11 million yen to four bank accounts opened in the name of other parties. They were arrested for violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds).

It turned out that the four bank accounts were opened in non-face-to-face transactions through the Internet. In the transactions, health insurance cards and driver’s licenses which were stolen by the men were used for identity theft.

(July 2011, Osaka Prefectural Police and other 10 Prefectural Polices)

C. Assessment

As non-face-to-face transaction may hinder business operators from directly seeing customers and identification documents, may deteriorate accuracy of customer identification. Therefore, compared with face-to-face transaction, non-face-to-face transaction may allow perpetrators to keep anonymity, to falsify customer identification data by falsifying identification documents and to pretend to be fictitious or another person.

In fact, there are cases where non-face-to-face transactions were misused, including a case where bank accounts opened by pretending another person were misused for money laundering. Therefore, non-face-to-face transaction has high risk to be misused for ML/TF.

To mitigate the risk of misuse of non-face-to-face transaction for ML/TF, under the Act on Prevention of Transfer of Criminal Proceeds, specified business operators are required to conduct secondary measures in non-face-to-face transactions where they verify customer identification by

^{*1} Regarding supervision to financial institutions, which are subject to Financial Services Agency, the Agency sets the Guidelines for Supervision which indicates notion, viewpoints, points to note, and specific measures of supervision of the Agency.

receiving the identification documents or the copies thereof sent from the customers and sending the transaction documents to the residence of the customers by mail such as registered mail as a postal item requiring no forwarding or the like. Furthermore, competent authorities supervise specified business operators to prevent non-face-to-face transaction from being misused for ML/TF.

(2) Cash Transactions

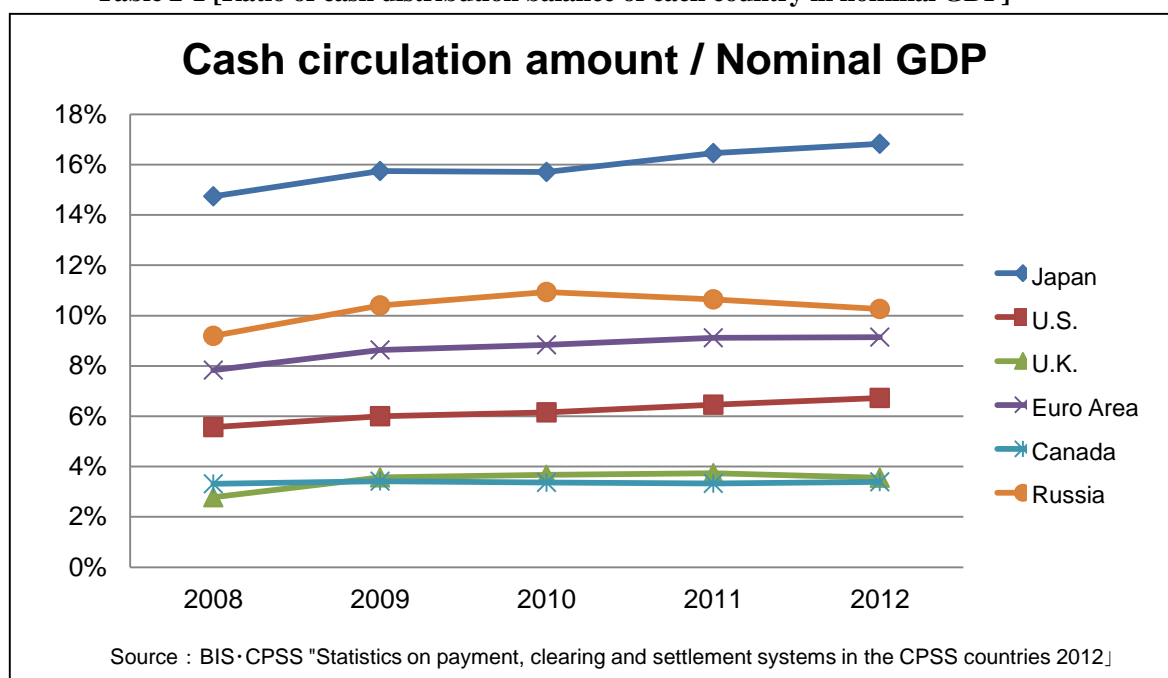
A. Present Situation

Unlike exchange transaction, which is a quick way to transfer funds to remote places, cash transaction needs certain amount of time because it transfers cash in physical way.

On the other hand, cash has high liquidity, enables to transfer of ownership easily and has high anonymity unless the transaction is recorded, resulting to impediment of traceability of the transaction.

Especially in Japan, the ratio of cash transactions is higher than those in other countries.

Table 2-1 [Ratio of cash distribution balance of each country in nominal GDP]



According to the statistics, in monthly average consumption expenditure of a household (2 or more persons) in 2009 by means of purchase, “cash” is 267,119 yen (88.8% in all consumption expenditure) and “credit card, monthly installment payment, and credit purchase (hereinafter referred to as “Credit card etc.”) is 32,574 yen (10.8% in all consumption expenditure). Although the transition of cash ratio shows decline as 94.6% in 1999, 93.5% in 2004, and 88.8% in 2009, purchase or payment in cash is still the biggest part in consumption expenditure by means of purchase.

**Table 2-2 [Transition of Expenditure by Means of Purchase
(Household of 2 or More Persons/ Monthly Average)]**

| Consumption expenditure | 1999 | | | 2004 | | | 2009 | | | |
|--------------------------|---------|------------------|---------|---------|------------------|---------|---------|------------------|------------------|---------|
| | Cash | Credit card etc. | Total | Cash | Credit card etc. | Total | Cash | Credit card etc. | Electronic money | Total |
| Expenditure amount (yen) | 317,147 | 17,967 | 335,114 | 299,340 | 20,724 | 320,063 | 267,119 | 32,574 | 1,244 | 300,936 |
| Ratio (%) | 94.6% | 5.4% | 100.0% | 93.5% | 6.5% | 100.0% | 88.8% | 10.8% | 0.4% | 100.0% |

Note: Data from the Ministry of Internal Affairs and Communications

The Act on Prevention of Transfer of Criminal Proceeds requires specified business operators to conduct CDD including verification at the time of transaction and preparation and preservation of

verification records and transaction records when they conduct transactions for receiving and paying cash which amounts to more than two million yen (100,000 yen in the case of a transaction for receiving and paying cash which accompanies exchange transactions or the writing of a cashier's check). In addition, the Act requires specified business operators to make STRs if received property is suspected to be criminal proceeds or if customers are suspected to be involved in activities which fall under the crime of concealment of criminal proceeds, considering the result of CDD including verification at the time of transaction and other circumstances.

Furthermore, competent authorities provide specified business operators with the List of Reference Cases of Suspicious Transactions, which indicates samples of transaction types attention should be especially paid to as potential suspicious transactions. In the list, taking "cases focusing on cash usage form" are enumerated for proper STRs by business operators.

In this regard, FATF notes that "business that are cash-intensive" is one of the examples of potentially higher-risk situations of ML/TF in the Interpretative Note of revised "40 Recommendations".

B. Case

Cases where cash transactions were misused for money laundering include a case of concealment of criminal proceeds where offenders sell stolen items in the name of another party at pawnshops or secondhand shops. Such cases include a case of receipt of criminal proceeds where offenders receive criminal proceeds in cash derived from criminal activities such as prostitution.

[Case 2] Case of changing a stolen expensive wristwatch into cash

(Concealment of criminal proceeds related to sneak thief)

An unemployed man falsified his identity by showing a pawnshop's dealer a forged driver's license when he pawned an expensive watch that he had stolen by sneak thief for 80,000 yen in cash. He was arrested for violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds).

(September 2011, Gifu Prefectural Police)

[Case 3] Case of receiving criminal proceeds derived from prostitution in cash

(Receipt of criminal proceeds related to the violation of the Anti-Prostitution Act)

A man engaging in a consulting job received around ¥3.3 million in cash from a man managing a sex parlor knowingly that the funds were criminal proceeds derived from prostitution. The offender was arrested for violating the Act on Punishment of Organized Crimes (receipt of criminal proceeds).

(October 2013, Ibaraki Prefectural Police)

C. Assessment

In general, cash transaction has high liquidity and anonymity, and may hinder LEAs from tracing criminal proceeds. As people are more likely to perform cash transaction in consumer expenditure in Japan, it may hinder from tracing criminal proceeds unless specified business operators dealing with cash properly prepare verification records.

In fact, there are cases where money launderers misused cash transactions by giving false information including pretending another person. Based on the situation, cash transaction has high risk to be misused for ML/TF.

To mitigate the risk that cash transaction is misused for ML/TF, the Act on Prevention of Transfer of Criminal Proceeds requires specified business operators to conduct CDD measures such as verification at the time of transaction when they conduct cash transactions above a monetary threshold with customers. Furthermore, some laws which stipulate supervision and regulations for operations of specific business, such as the Pawnbroker Business Act, require specified business operators to verify customer identification data such as address and name. Those measures will contribute to effectively mitigate the potential risk that cash transaction may be misused for ML/TF.

(3) International Transactions

A. Present Situation

In general, compared with domestic transactions, international transactions may hinder LEAs from tracing funds because of the fact that national legal system and transaction system varies from country to country, and AML/CFT measures such as monitoring and supervision implemented in the home country may be unlikely applied in foreign countries.

Especially, in foreign exchange transactions, serial payment is usually conducted based on correspondent banking relationship and may be conducted in a short time through several intermediary banks. This may significantly hinder from tracing criminal proceeds.

In addition, in correspondent banking, because financial institutions may not have direct relationship with remittance client, they could be involved in money laundering unless respondent institutions develop internal control system for AML/CFT. If a respondent institution is a fictitious bank and does not have a physical presence (What is called “shell bank”), or if a respondent institution allows shell banks to use the held accounts, the foreign exchange transactions may be highly suspicious to be used to transfer or conceal criminal proceeds.

Furthermore, by disguising as foreign trade, purpose of remittance is easily justified and criminal proceeds could be transferred by adding value to the original transaction price.

Besides, in international transaction, cash courier (physical cross-border transportation of currency and bearer negotiable instruments) may be misused to transfer criminal proceeds, as well as the above mentioned exchange transactions based on correspondent banking relationship.

The Act on Prevention of Transfer of Criminal Proceeds requires specified business operators to conduct CDD measures that they should understand the purpose and intended nature of the business relationship when they conduct specified transactions and they should notify to respondent institutions on customer (originator) identification data in foreign exchange transactions as well as they should preserve identification records on customers provided from foreign financial institutions.

In the Guidelines for Supervision by the Financial Services Agency, the Agency requires financial institutions to develop management system regarding correspondent banking relationship based on integrated management system of legal matters. This is to appropriately conduct CDD including verification at the time of transactions under the Act on Prevention of Transfer of Criminal Proceeds and a part of AML/CFT system development. The system includes decision making program by senior compliance officer in collecting sufficient information of AML/CFT and supervisory measures to respondent institutions by the local authorities and evaluating them, and clarifying the allocation of responsibility shared between the respondent institutions by documentation, as well as verifying that respondent institutions are not shell banks and the held accounts are not misused by shell banks.

Furthermore, regarding cash couriers, when a person conducts physical cross-border transportation of currency and bearer negotiable instruments, if cash, check, and securities exceed the value of 1 million yen or precious metals and stones are over 1 kg, the person should submit written notice to Finance Minister under the Foreign Exchange and Foreign Trade Act and filing documents to custom chief under the Customs Act.

B. Case

As to cases where international transaction was misused for money laundering, there are cases where criminal proceeds derived from drug trafficking are laundered through smuggling of bulk cash or transactions disguised as trading over borders in foreign countries.

In Japan, many cases of money laundering where international transaction was misused are committed by foreign visitors to Japan. For example, there are cases where criminal proceeds were disguised as legal business proceeds and transferred to accounts owned by foreign visitors to Japan and cases where criminal proceeds from fraud are laundered through Internet auction bidding agency service by trading companies.

Incidentally, in the process of investigations or by statements by defendants, it was found out that some foreign people repeated cash smuggling. They hid cash of Japanese yen in their baggage when they went to their home country from Japan to make funds of underground banking.

[Case 4] Case of disguising ransom money, which was remitted from overseas to a bank account in Japan, as legal business proceeds

(Concealment of criminal proceeds related to a kidnapping-for-ransom case that took place overseas)

The sum of approximately ¥180 million in ransom money in a kidnapping-for-ransom case in the Netherlands was remitted to a bank account in Japan. A Chinese man attempted to prove that the money was earned legally by giving false information to a bank clerk that the funds were used as a deposit on business dealings and presenting a fraudulent business contract. The man was arrested on violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds).

(November 2012, Kanagawa Prefectural Police)

[Case 5] Case where criminal proceeds from fraud are laundered through Internet auction bidding agency service by trading company

(Receipt of criminal proceeds related to sale of counterfeit branded goods through Internet auction)

In Japan, an unknown person gained criminal proceeds (Japanese yen) from sales transaction of counterfeit branded goods through Internet. A Chinese man who operated a trading company made the person transfer the proceeds into a bank account in the name of the trading company. He was arrested for violation of the Act on Punishment of Organized Crimes (receipt of criminal proceeds).

The man used a Chinese auction site which closely resembles a major Internet auction site in Japan. He carried out bidding agency service for Chinese customers on the major auction site and converted criminal proceeds (Japanese yen) gained from the sales transaction to Chinese Yuan.

(November 2013, Fukuoka Prefectural Police and other 20 Prefectural Polices)

C. Assessment

Compared with domestic transactions, international transactions may hinder from tracing funds because system of national legislations and transaction, etc. varies from country to country.

Actually, in some cases, criminal proceeds were transferred to foreign countries, disguised as legal trade transaction. Therefore, international transaction has the risk misused for ML/TF.

In addition, transactions mentioned below have high risk to be misused for ML/TF.

- Transactions related to countries and regions where proper AML/CFT measures are not implemented
- International remittance transactions which include a lot of cash

To mitigate the risk of international transactions to be misused for ML/TF, foreign exchange transaction and import and export of bearer negotiable instruments are regulated under the Act on Prevention of Transfer of Criminal Proceeds and the Foreign Exchange and Foreign Trade Act as well as the competent authorities conduct guidance and supervisions.

2. Risk Assessment Focusing on Customer Types

(1) Anti-social Forces (Boryokudan etc.)

A. Present Situation

In Japan, Boryokudan and other anti-social forces ^{*1} not only commit various crimes to gain profit but also disguise as or misuse business activities to gain funds.

Boryokudan are typical criminal organization in Japan. They commit organized crimes or continue crimes to gain profit.

There are many Boryokudan throughout Japan. The size and activity vary. As of the end of 2013, 21 groups are designated as “designated Boryokudan gangsters” under the Act on Prevention of Unjust Acts by Organized Crime Group Members.

The number of Boryokudan members is shown in Table 2-3. As of the end of 2013, total number of Boryokudan gangsters is 58,600, ^{*2} including 25,600 Boryokudan members and 33,000 associates.

These days, Boryokudan are more careful to conceal the organizational nature. They disguise their activities as business activity or claim to be political activity or social campaign. Their presence is vaguer today. Furthermore, by making the relationship between each fund making activity and the resulting fund unclear, they often commit money laundering to avoid taxation on or confiscation of gained fund or arrest due to the fund. Criminal proceeds are funds to maintain and strengthen organization by using them as “operating capital” for further crimes or expenses to obtain weapons. The criminal proceeds are also used for going into legal business.

“Guideline for How Companies Prevent Damage from Anti-Social Forces” (agreed upon at a working group meeting on June 19, 2007 of cabinet ministers responsible for anti-crime measures) is formulated for companies, including deposit-taking institutions, to promote the approach to ban on any relation with anti-social forces.

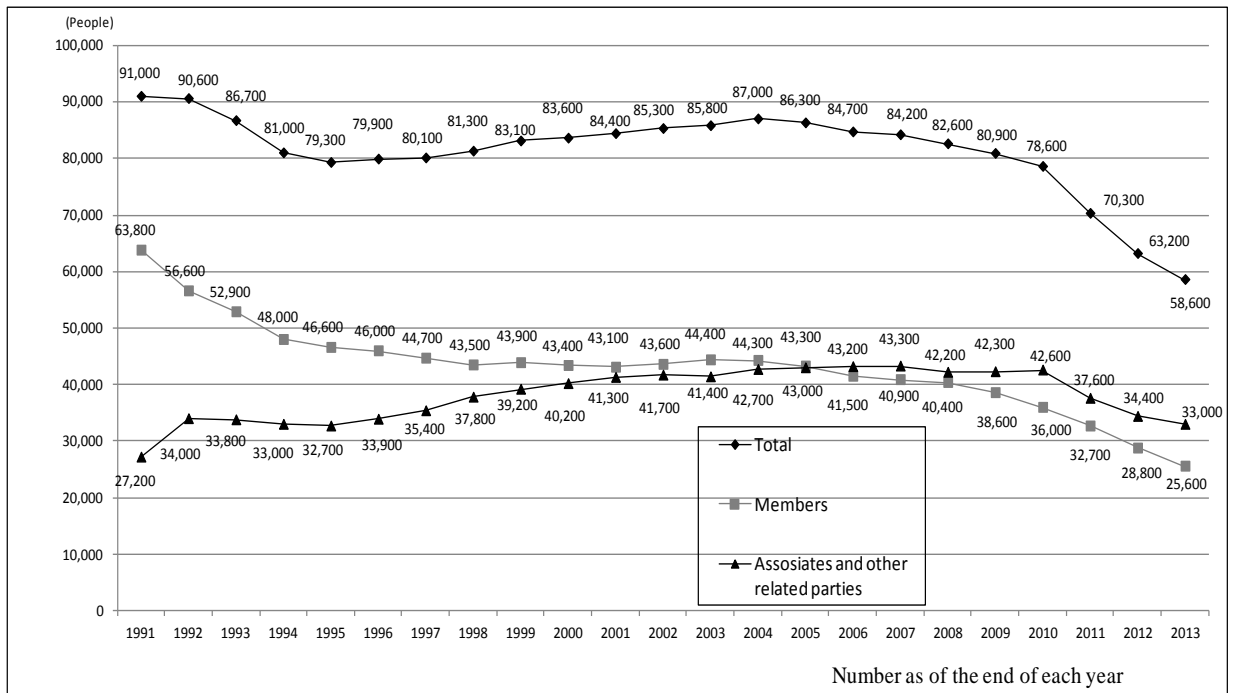
On the basis mentioned above, the Financial Services Agency requires financial institutions etc. to develop the internal management system to cut off the relationship with anti-social forces in Guidelines for Supervision. The system includes institutional response, development of integrated management system, proper before-and-after screening and review, and efforts to cut off the relationship.

Financial institutions etc. introduce clauses regarding the exclusion of “Boryokudan” crime syndicate into their terms and conditions of transaction. This is the efforts to cut off the business relationship if trading partner is a Boryokudan member. As practical conduct, if a trading partner turned out to be a member of anti-social forces, financial institutions, etc. should generally consider whether they submit STRs to relevant authorities under the Act on Prevention of Transfer of Criminal Proceeds.

^{*1} They are groups/individuals that pursue economic profits through the use of violence, threats and fraudulent method, and include Boryokudan, Boryokudan affiliated company, “Sokaiya” racketeer, person(s) engaging in criminal activities under the pretext of social campaign or political activities and violent groups/individuals specialized in intellectual crimes.

^{*2} The number of Boryokudan gangsters in this section is an approximate figure.

Table 2-3 [Transition of the Number of Boryokudan Gangsters]



B. Suspicious Transaction Reports (STRs)

There are 1,051,068 STRs from 2011 to 2013, including 114,904 reports (or 10.9 % of total reports) related to Boryokudan gangsters.

C. Case

There are 782 cases cleared of money laundering from 2011 to 2013, including 228 reports (or 29.2 % of total reports) which are clearly related to Boryokudan gangsters.

Seeing money laundering cases related to Boryokudan gangsters, there are a number of cases where they disguise ownership of criminal proceeds, which are from frauds including remittance frauds, illegal money lending business, drug offences, etc., by using an account in the name of another party, etc. In addition, there are cases where Boryokudan receives criminal proceeds in the name of protection fee, a contribution, etc, by taking advantage of their organizations' threat.

[Case 6] Case of concealing criminal proceeds related to a violation of the Worker Dispatching Act, by Boryokudan members, by using an account in the name of another party

(Concealment of criminal proceeds related to the violation of the Worker Dispatching Act)

Senior members of Boryokudan, Rokudaime Yamaguchi-gumi who was engaging in the temporary staffing business sent temporary workers to do construction work, which such workers are not allowed to do, and arranged to remit a total of around ¥20.5 million in wages to a bank account made in the name of another party. The offenders were arrested for violating the Act on Punishment of Organized Crimes (concealment of criminal proceeds).

(October 2013, Shizuoka Prefectural Police)

[Case 7] Case of receiving criminal proceeds from prostitution, by Boryokudan members

(Receipt of criminal proceeds related to the violation of the Anti-Prostitution Act)

Senior members of Boryokudan, Rokudaime Yamaguchi-gumi received a total of around ¥16 million from a prostitution organization in the knowledge that the funds were proceeds from prostitution. The offenders were arrested for violating the Act on Punishment of Organized Crimes (receipt of criminal proceeds).

(May 2013, Fukuoka Prefectural Police and Oita Prefectural Police)

D. Assessment

Other than committing various crimes to gain profit, Boryokudan and other anti-social forces disguise or misuse business operation to gain funds. As money laundering makes the source of fund from criminal activity or fund raising activity unclear, it is said that money laundering is an indispensable activity for anti-social forces.

Therefore, in dealing with anti-social forces, there is a high risk to be misused for money laundering.

To mitigate the risk that transactions with anti-social forces are misused for money laundering, competent authorities develop guidance and supervision and industries and business operators reinforce efforts. Through these measures, people are trying to cut the relationship with anti-social forces and prevent money laundering.

(2) Non-resident Customers

A. Present Situation

Non-residents who trade through mail or Internet while staying in a foreign country always make non-face-to-face transactions, so they may keep anonymity. It is easy for them to falsify customer identification data or to pretend to be a fictitious or another person by altering the data. In case where non-resident customers are suspected of falsifying their identification data verified already in the course of business relationship or their bank accounts are suspected of being misused for ML/TF, business operators may have fewer measures for appropriate ongoing CDD such as re-verifying customer identification data, compared with customers residing in Japan.

In the Interpretative Note of New "40 Recommendations", FATF states that "Non-resident customers" is a higher risk category factor to increase money laundering risk.

B. Assessment

Non-residents who trade through mail or Internet while staying in a foreign country always make non-face-to-face transaction and may keep high anonymity, it is easy for them to falsify customer identification data or to pretend to be a fictitious or another person by altering the data. At the same time, business operators have limited measures to conduct ongoing CDD, compared with the case of customers in Japan. Therefore transaction with non-residents has high risk to be misused for ML/TF.

To mitigate the risk that transactions with non-resident customers are misused for ML/TF, the Act on Prevention of Transfer of Criminal Proceeds stipulates verifying customer identification data. Besides, the Guidelines for Supervision by the Financial Services Agency require developing management systems for suitable examination and judgment, such as comprehensive consideration of specific information related to the transaction, including customer's attribute.

(3) Foreign Politically Exposed Persons

A. Present Situation

In relation to foreign PEPs (politically exposed persons such as head of a state, major politician, high government official, judge, and military authorities), FATF requires specified business operators to determine whether customers are PEPs, and if they are, to conduct enhanced CDD including verification of asset and income. In January 2013, FATF established guidelines about PEPs and expressed its opinion that as politically exposed persons have potential risk to commit ML/TF or predicate offenses, including embezzlement of public funds and corruption, because of their position, they have to be treated as persons with high risk, regardless of the background of each PEP.

Bribery, embezzlement of property, and other corruption related to public officials are not a regional problem. With globalization, these problems have become international phenomenon which influence on society and economy all over the world. Countries have come to share the recognition that comprehensive approach, including international cooperation, is necessary to promote efficient corruption prevention measures. Measures against corruption and transfer of criminal proceeds derived from corruption by foreign public officers are required internationally. In this circumstance, Convention on Combating Bribery of Foreign Public Officials in International Business Transactions was adopted by the Organization for Economic Cooperation and Development (OECD) in 1997 with the recognition that unfair competition caused by bribery of foreign public officials should be prevented. In Japan, Unfair Competition Prevention Act was revised, and prohibitions of providing illicit profit to foreign public officials etc. were introduced in 1998.

Although concrete cases of ML/TF related to foreign PEPs have not been reported in Japan thus far, cases of violation of the Unfair Competition Prevention Act are reported. For example, in 2007, a worker of a local subsidiary of a Japanese company gave a set of golf clubs to a foreign government official as bribery. In 2009, a worker of a Japanese company handed cash to a foreign public official in reward for the road construction work in a project of Official Development Assistance (ODA) in a foreign country. In 2013, a worker of a local subsidiary of a Japanese company handed cash to an official of local customs because the official overlooked illegal operation of the company.

B. Assessment

The Foreign Exchange and Foreign Trade Act and the Act on Prevention of Transfer of Criminal Proceeds regulate transactions related to non-resident and foreign exchange transactions; however, they do not regulate transactions with foreign PEPs.

Meanwhile, FATF points out that PEPs in foreign countries have high credit based on the position in the home country and they have high risk of ML/TF because of their position and power.

Given the international opinion and others, transaction with foreign PEPs has high risk to be misused for ML/TF.

(4) Legal Persons without Transparency of Beneficial Ownership

A. Present Situation

As corporations or other legal persons can be owners of property, it is possible to change ownership of property if it is transferred from a natural person to a legal person.

Legal persons have complex structure of right to and control related to property. Shareholder, director, executive officer, and creditor have different right to corporate property in different positions in a company.

Hence, if property is transferred to a legal person, the property is in its peculiar complex structure of right and control. When ownership of the property is in a complicated state, the beneficial ownership of the property can be disguised easily.

Furthermore, it is possible to transfer large amount of property frequently in the name of corporate business.

By misusing these characteristics of corporation, those who attempt ML/TF can hide behind complicated structure of right and control. For example, they can appoint a third party, who is under the control of them, as director. On the surface, the relationship between them and the corporation is not visible. Substantially, however, they manage the corporation and property to carry out ML/TF.

In such circumstance, to prevent legal persons from being misused for ML/TF, it is important to secure the transparency of the legal person by obtaining beneficial owner information for securing the traceability of funds.

The Act on Prevention of Transfer of Criminal Proceeds was revised in 2011. After the revision, the Act states that in the case of legal persons that adopt capital principle of majority rule, such as joint-stock corporations, beneficial owner shall be those who own more than 25% of voting right. In the case of other legal persons, beneficial owner shall be representatives. And Specified Business Operators have the obligation to verify customer identification data regarding beneficial ownership of legal person customer, but it is not required to track beneficial owner to natural person.

On the other hand, FATF requires the following:

- To clarify beneficial owner as natural person for customer identification in all cases if customers are legal persons.
- To make mechanisms where beneficial owner of legal person is identified, as well as competent authorities can obtain or access to the information regarding beneficial owner of legal person in a timely manner.
- To consider measures that promote access to the beneficial ownership and control information by business operators.

Other than that, there are business operators who provide business address, facilities, communication means or administrative address for legal persons in Japan. They are:

- Postal receiving service providers
They consent to use their own address or their office address as the place where customers receive mail, provide service to receive the mail to the customer, and hand it over to the customer.
- Telephone receiving service providers
They consent to use their telephone number as customer's telephone number, provide service to receive the call to the customer's telephone number, and transmit the content to the customer.
- Telephone forwarding service providers
They consent to use their telephone number to use as customer's telephone number and provide the service that automatically forward calls that are to the customer or calls from the phone number of the customer to the telephone number designated by the customer.

By misusing services of these providers, legal persons can indicate address and telephone number which are not used by the legal person as its own address and telephone number. They can make fictitious or exaggerated appearance for reliability and scale of business and they can also establish and maintain shell companies.

The Act on Prevention of Transfer of Criminal Proceeds obligates the three providers mentioned above to conduct CDD such as at the time of transaction and make and preserve verified data and transaction record when establishing business relationship. Furthermore, the Act requires them to make STRs if received property is suspected to be criminal proceeds or customers are suspected to be involved in activities which fall under the crime of concealment of criminal proceeds, considering the result of CDD including verification at the time of transaction and other circumstances.

B. Case

As to cases where legal persons are misused for money laundering, there are cases where criminal proceeds from fraud are concealed in a bank account of a legal person whose beneficial owner is not clear.

[Case 8] Case of concealing criminal proceeds related to horse race information fraud, by using an account in the name of a legal person without transparency of beneficial ownership

(Concealment of criminal proceeds related to horse race information fraud)

Unemployed men engaged a broker and made him establish a joint-stock corporation whose representative was not directly related to horse-race-information fraud as predicate offense.

The offender remitted, totaling 12.82 million yen, 42 times to the account named aforementioned legal person. They were arrested for violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds).

(September 2011, the Metropolitan Police Agency)

C. Assessment

By using a legal person to layer the property under a complicated structure of right and control, ultimate ownership of property is easily disguised. Such characteristic of legal person make tracking funds difficult when beneficial owner is opaque.

To cope with such situations, Specified Business Operators verify customer identification data related to beneficial owner of legal person under the Act on Prevention of Transfer of Criminal Proceeds. However, the Act doesn't require Specified Business Operators to clarify natural person as beneficial owner and there are some cases where beneficial ownership is opaque.

In fact, there was a case where a bank account, which was opened in the name of legal person that the beneficial owner was opaque, was misused to conceal criminal proceeds derived from fraud. Therefore, transaction with legal persons where the beneficial owners are opaque has high risk for ML/TF.

(5) Customers Who Use an Identification Document without a Photograph

A. Present Situation

Regarding CDD including verification at the time of transaction set out in the Act on Prevention of Transfer of Criminal Proceeds, Article 6 of the Ordinance stipulates customer identification documents. According to the Article 6, ID cards without photo of the person to be verified such as health insurance card or certificate of registered seal (hereinafter referred to as "ID card without photo"), are admitted as identification document as well as ID cards with photo of the person to be verified such as driver's license or passport (hereinafter referred to as "ID card with photo").

In case of ID card with photo, business operators can compare the photo and the features of customer at face-to-face transaction to confirm the identity.

However, in case of ID card without photo such as health insurance card, reliability of identification is lower than ID card with photo because business operators might not be able to find out whether the holder is pretending other person at the time of transaction, although ID card without photo is also issued to the person to be verified and it supports the identity of the person.

In addition, in the third round of FATF Mutual Evaluation of Japan, it was pointed out that customer identification documents admitted in Japan had vulnerability that could be misused for ML/TF.

B. Case

Seeing cases where ID card without photo is misused, there are cases where the offenders swindle bankbooks from banks by using national health insurance card in the name of third party obtained illegally to pretend other person. In other cases, to pretend other person, other's certificate of registered seal was provided as customer identification documents to a postal receiving service provider and the contract was concluded.

From these cases, it is grasped that offenders obtain a bank account or conclude postal receiving service illegally to receive criminal proceeds representatively derived from specialized fraud, such as HEY-IT-IS-ME fraud or loan shark, and conduct money laundering.

C. Assessment

Compared with ID card with photo, such as driver's license or passport, ID card without photo is less reliable to confirm the identity between the person to be verified in customer identification documents and the person who actually provides these documents. Therefore, if those who attempt ML/TF illegally obtain other's ID card without photo and conduct transaction by pretending to be another, it is not easy to find out the false identification during verification at the time of transaction. Therefore, ID card without photo has vulnerability which could be misused for ML/TF in the aspect of identification data quality.

In fact, there are cases where offenders illegally obtain other's ID card without photo and conduct transactions, pretending to be another person. Therefore, transaction with a customer who provides ID card without photo has high risk of ML/TF, compared with transaction where ID card with photo is provided.

3. Risk Assessment Focusing on Countries and Regions

(1) Present Situation

FATF identified jurisdictions which have strategic deficiencies to cope with ML/TF. These jurisdictions do not make sufficient progress in addressing the deficiencies or do not commit to an action plan developed with the FATF for addressing the deficiencies. FATF makes public statement about these jurisdictions every 4 months and call on its members to consider the risks arising from the deficiencies associated with each jurisdiction.

Especially about Iran and North Korea, FATF has called on its members and other jurisdictions to apply countermeasures to protect international financial system from the on-going and substantial ML/TF risks emanating from these countries since February 2009 and February 2011 respectively.

In FATF public statement dated on October 24th, 2014, four countries were identified other than Iran and North Korea. ^{*1} FATF requires members to consider the risks from deficiencies arising from such jurisdictions.

In response to the statement, notices about FATF public statement are provided to Specified Business Operators through competent authorities, along with request for thoroughly implementing duty of CDD including verification at the time of transaction and submission of STRs and duty of giving notice related to foreign exchange transaction under the Act on Prevention of Transfer of Criminal Proceeds.

For Specified Business Operators to establish and develop the mechanism to make STRs, the Guidelines for Supervision by the Financial Services Agency stipulates focal points for supervision which includes ample consideration of type of transaction such as volume and times of transactions with cross-checking the nationality etc. (for example, jurisdictions which are not cooperative to implement AML/CFT standards set out by FATF).

The Act on Prevention of Transfer of Criminal Proceeds stipulates that Iran and North Korea are jurisdictions where a system for the prevention of the transfer of criminal proceeds is deemed to be not sufficiently prepared. Based on this provision about Specified Jurisdictions, the Act requires enhanced CDD including verifying customer identification data, source of wealth and source of funds for specified transactions with a customer etc. who resides or is located in the specified jurisdictions and any other specified transactions which involve transfer of property to a person who resides or is located in the specified jurisdictions.

^{*1} See http://www.mof.go.jp/international_policy/convention/fatf/fatfhoudou_260729.htm. FATF public statement is adopted in FATF plenary meeting which is held every 4 months. Identified jurisdictions could change in each time.

(2) Assessment

As mentioned above, international transactions have risks of ML/TF. Based on the FATF public statement, transactions with Iran and North Korea have especially high risks of ML/TF. Regarding transactions with other 4 jurisdictions, it is considered that risks are higher than transactions with any other jurisdictions which basically have risks to be misused for ML/TF, although risks are not so much as the transaction with Iran or North Korea.

To mitigate the risk, the Act on Prevention of Transfer of Criminal Proceeds requires Specific Business Operators to conduct enhanced CDD for transactions related to specified jurisdictions. Competent authorities also implement the supervision so that transactions are not misused for ML/TF.

4. Risk Assessment Focusing on Product/Service Types

(1) Products and Services Handled by Deposit-taking Institutions

A. Outline of Deposit-taking Institutions

As of the end of March 2014, there are 1,432 deposit-taking institutions, including banks.^{*1} Among those institutions, bank balance^{*2} is 640,886.3 billion yen as of the end of March 2013.

Deposit-taking institutions handle a wide range of services. Other than acceptance of deposits etc., loan of funds, discounting of bills, and exchange transactions (domestic and foreign exchange), which are peculiar bank business,^{*3} they handle ancillary business such as consultation of asset management, sales of insurance products, credit card service, proposal for business succession, support for overseas expansion and business matching, etc.

In addition to banking operation mentioned above (including ancillary business), some banks which engage in trust business undertake trust of cash, securities, monetary claim, movables and real estate as trust business and also handle business stipulated in the Act on Engagement in Trust Business by a Financial Institution, such as real estate-related business (agent, examination, etc.), securities agent business (management of stockholder list etc.), and inheritance-related business (execution of will, disposition of inheritance, etc.).

Deposit-taking institutions in Japan vary in the scale and scope of operation. Financial Services Agency, which is the competent authorities of deposit-taking institutions, classified them into major banks (mega banks) and Small- and Medium-Sized or Regional Financial Institutions (regional banks, regional banks II, and cooperative financial institutions) for supervision. Each of the three mega bank groups has branches throughout Japan. They are selected as Global Systemically Important Financial Institutions (G-SIFIs) and expand internationally. Each regional bank and regional bank II has the main focusing area or region operating business, but some regional banks have strategy to expand their business beyond focusing area. Cooperative financial institutions operate in particular districts only.

B. Suspicious Transaction Reports (STRs)

^{*1} Total of banks (141 banks, excluding foreign bank branches), cooperative financial institutions (267 Shinkin banks), credit associations (155 associations), labor banks (13 banks), and agricultural cooperatives (856 cooperatives)

^{*2} See “Financial Statement Analysis of All Banks” by Japanese Banker's Association (117 banks are covered).

^{*3} Business stipulated in the Banking Act, Article 10, each paragraph

There were 1,002,558 STRs by deposit-taking institutions from 2011 to 2013, accounting for 95.4% of total reports.

Main reasons for report are as below.

- Unusual transactions or transactions-related customers who show unusual behavior or tendency based on the knowledge and experience of staff (155,153 reports, 15.5%)
- Transactions related to accounts to which many people frequently transfer money, especially huge amount of money is remitted or withdrawn from the account right after money is transferred in. (150,845 reports, 15.1%)
- Transactions related to Boryokudan and its related parties (103,967 reports, 10.4%)
- Transactions in which huge amount of money is transferred to foreign countries without visible economic purpose (69,721 reports, 7.0%)
- Transactions related to accounts to which many people frequently transfer money, especially huge amount of money is deposited just before the remittance (57,804 reports, 5.8%)
- Transactions related to accounts that huge amount of money is frequently deposited and withdrawn (including trade of securities, remittance, and exchange. The same applies to the following.)(47,455 reports, 4.7%)
- Transactions that deposit and withdrawal are made in huge amount of cash or check, especially large amount transactions which are inappropriate to the customer's income or asset or transactions of deposit and withdrawal in cash although it is suitable to use remittance or cashier's check (43,998 reports, 4.4%)
- Transactions that huge amount of money is sent from foreign country without visible economic purpose (29,795 reports, 3.0%)
- Transactions related to accounts which don't usually show fund movement, but huge amount of money is suddenly deposited or withdrawn (26,870 reports, 2.7%)
- Transactions related to customers who provide information suspected to be false or intangible information when remitting to foreign countries. Especially, transactions related to customers who provide information that does not have comprehensible reason about the recipient, purpose, and source of fund, etc. (24,930 reports, 2.5%)
- Deposit and withdrawal using accounts suspected to be opened by using fictitious or other person's name (21,800 reports, 2.2%)

C. Deposit/Savings Account

(a) Present Situation

Based on the reliabilities to deposit-taking institutions and fulfillment of deposit protection system for depositor, deposit/savings account is a popular and wide spread measure to manage funds safely and securely. These days, it is possible to open an account or transact through Internet, without going to a bank, and convenience is further increasing.

However, such characteristics provide safe and convenient way to preserve or transfer criminal proceeds. For those who attempt ML/TF, it can be efficient measures to receive and conceal criminal proceeds.

The Act on Prevention of Transfer of Criminal Proceeds requires deposit-taking institutions to conduct CDD including verification at the time of transaction, and make and preserve verification records and transaction records when they conclude deposit/savings contracts (contracts about receipt of deposit/savings) with customers. In addition, deposit-taking institutions have the obligation of making STRs if received property is suspected to be criminal proceeds or customers are suspected to be involved in activities which fall under the crime of concealment of criminal proceeds, considering the result of CDD including verification at the time of transaction and other circumstances.

The Act on Damage Recovery Benefit Distributed from Fund in Bank Accounts Used for Crimes requires deposit-taking institutions to take proper measures, such as suspension of transaction related to the account, when there is a suspicion about a deposit account to be misused for crimes,

e.g. remittance fraud, based on information provided by investigative agencies or other regarding the deposit account.

(b) Situation of Clearance of Related Offences

Accounts opened by using fictitious names or in the names of third parties are obtained through illegal trading and misused to receive criminal proceeds in specified frauds, such as remittance fraud, or loan shark cases. Money laundering is committed through such accounts.

Police reinforce investigation on violation of the Act on Prevention of Transfer of Criminal Proceeds related to illegal transfer of deposit/savings passbook and cash card (see Table 1-9).

Police also actively investigate cases of account fraud, in which offenders cheat deposit-taking institutions of deposit/savings passbook concealing the purpose of transferring it to others, and cases of receiving passbook knowing that these are obtained illegally applying the provision of receiving stolen property. Number of cleared cases of account fraud etc. is shown in Table 2-4.

Table 2-4 [Number of cleared cases of account fraud etc.]

| Category \ Year | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Account fraud | 1,365 | 1,222 | 1,558 | 1,602 | 2,849 | 3,778 | 2,288 | 2,097 | 2,049 | 2,016 |
| Receiving of stolen property | 95 | 148 | 108 | 48 | 81 | 83 | 40 | 41 | 21 | 15 |
| Total | 1,460 | 1,370 | 1,666 | 1,650 | 2,930 | 3,861 | 2,328 | 2,138 | 2,070 | 2,031 |

Note: Based on reports to Second Investigation Division, Criminal Investigation Bureau, National Police Agency.

(c) Case

As to cases where accounts were misused for money laundering, there are case examples by receiving or concealing of criminal proceeds derived from fraud, theft, loan shark crime, drug crime, violation of amusement business act etc. by the use of accounts obtained or transferred illegally in the name of shell company or third party.

Especially, in some cases of loan shark crime and selling obscene DVD cases, some accounts are misused to receive criminal proceeds for a long time without being suspended, such as being frozen, though these accounts frequently received money from many people in a long terms or suddenly resume to receive remittances frequently after a long term inactivity.

[Case 9] Case of concealing criminal proceeds by misusing a bank account which was opened by fraud

(Concealment of criminal proceeds related to the sale of counterfeit branded goods)

A Chinese man who was a computer programmer sold counterfeit branded sunglasses, wallets, and other products by using internet auctions and had the purchasers deposit their payments, totaling approximately 1.6 million yen, into a bank account opened under a fictitious name by using a forged identification document. He was arrested for violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds).

(February 2011, Kanagawa Prefectural Police)

[Case 10] Case of concealing criminal proceeds, by receiving long-term remittance into accounts that were obtained in the name of third party

(Concealment of criminal proceeds related to violation of the Money Lending Business Act)

A man, who operated money lending business illegally, made 16 borrowers remit money 430 times, 9.94 million yen in total, during the period of 2 years and 5 months to 2 accounts obtained from other parties when he collected repayment from borrowers. He was arrested for the violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds).

(March 2011, Kumamoto Prefectural Police)

D. Deposit Transactions

(a) Present Situation

With the spread of ATM through the cooperation between financial institutions and around-the-clock convenience stores, transactions related to deposit or withdrawal of deposit/savings (hereinafter referred to as “deposit transaction”) provide high convenience to account holders. People can prepare or preserve funds quickly and easily, regardless of time and place.

However, for those who attempt ML/TF, deposit transactions provide safe and secure fund management and high convenience. They could commit ML/TF through withdrawal of criminal proceeds transferred to the account or deposit of criminal proceeds. Deposit transactions can be a practical means for ML/TF.

The Act on Prevention of Transfer of Criminal Proceeds requires deposit-taking institutions to conduct CDD including verification at the time of transaction, and prepare and preserve verification records and transaction records when they conduct transactions of receipt or payment of cash which exceeds 2 million yen with customers (100,000 yen in the case of exchange transaction or including issuance of cashier's check). The Act also requires deposit-taking institutions to make STRs if received property is suspected to be criminal proceeds or customers are suspected to be involved in activities which fall under the crime of concealment of criminal proceeds, considering the result of CDD including verification at the time of transaction and other circumstances.

(b) Case

As to cases where deposit transactions were misused for money laundering, there were cases where an offender received criminal proceeds in the account, withdrew money several times, and sent it to an account in his relative's name to conceal proceeds, cases where criminal proceeds of fraud in foreign countries were transferred to a domestic account, disguised as legal business proceeds and withdrawn, and cases where criminal proceeds derived from theft, fraud and drug crime, etc. were transferred to an account in the name of third party and concealed.

[Case 11] Case of withdrawing a large deposit, which was criminal proceeds, by a number of small withdrawals and depositing it into accounts in the name of other parties

(Concealment of criminal proceeds related to a fire insurance benefit paid to a bankrupt company)

A man who was the president of a company to which the court made an order of commencement of a bankruptcy proceeding concealed part of insurance benefit paid for a fire of a company's warehouse by transferring the money to bank accounts of his brother-in-law who was an executive member of an organization affiliated with Boryokudan, Rokudaime Yamaguchi-gumi. He subsequently made 40 withdrawals totaling 40 million yen which was a part of the criminal proceeds and transferred it to multiple bank accounts in the names of the president's relatives and acquaintances. He was arrested for violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds).

(July 2011, Chiba Prefectural Police)

[Case 12] Case of concealing and withdrawing criminal proceeds remitted from overseas by disguising them as legal business proceeds and withdrawn

(Concealment of criminal proceeds related to international large-sum fraud)

A senior member of Boryokudan, Kyokuto-kai, a Nigerian man and others worked together to remit funds from a fraud case in the U.S. in the sum of approximately 24 million yen to a bank account in Japan. They misled the bank that the funds were paid for products. Subsequently, when completing the withdrawal procedures, they submitted transaction sheets with the false statement that the funds were paid for products, and consequently gave a false appearance that the funds were fairly obtained in business. They were arrested for violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds).

(May 2013, Niigata Prefectural Police and the Metropolitan Police Department)

E. Domestic Exchange Transactions

(a) Present Situation

Domestic exchange transactions are used for receiving remittance of salary, pension, dividend, etc. or paying utility fee, credit card charge, etc. by account transfer system. Domestic exchange transaction enables customers to make a safe and quick settlement without cash movement between remote areas. With such convenience, many people use it as a familiar settlement service.

On the other hand, such characteristics can be used as an efficient measure to transfer criminal proceeds.

The Act on Prevention of Transfer of Criminal Proceeds requires deposit-taking institutions to conduct CDD including verification at the time of transaction, and prepare and preserve verification records and transaction records when they conduct transactions of receipt or payment of cash that exceeds 100,000 yen in cash transfer and include exchange transaction. The Act also requires deposit-taking institutions to make STRs if received property is suspected to be criminal proceeds or customers are suspected to be involved in activities which fall under the crime of concealment of criminal proceeds, considering the result of CDD including verification at the time of transaction and other circumstances.

(b) Case

In domestic exchange transactions, quick fund transfer is possible with spread of ATM and Internet banking. Furthermore, anonymity is secured if an account in the name of another party is abused. Offenders carry out money laundering and various predicate offenses by misusing these characteristics.

As to cases where domestic exchange transactions were misused for money laundering, there were cases where offenders sold stimulant through delivery service and made buyers of stimulant in remote areas remit the price to plural accounts in the names of another parties, cases where offenders made borrowers of loan shark continuously remit repayment to an account in the name of another party, and cases where adult entertainment businesses (unlicensed operation) made some customers remit money to accounts in the name of another party when they made payment by credit card.

[Case 13] Case of trafficking stimulants and making customers pay into accounts opened in the name of other parties

(Concealment of drug-related criminal proceeds related to broad-area trafficking of stimulants)

A man who was a trafficker of stimulants and who was related to Boryokudan, Soai-kai engaged in trafficking of stimulants using a door-to-door parcel delivery service. He arranged for customers to remit around 3.1 million yen in payment for stimulants to multiple bank accounts opened in the name of other parties. He was arrested for violating the Anti-Drug Special Provisions Law (concealment of drug-related criminal proceeds).

(January 2013, Okayama Prefectural Police)

[Case 14] Case of concealing criminal proceeds related to illegal money lending business, by making customers pay into accounts opened in the name of other parties

(Concealment of criminal proceeds related to violation of the Money Lending Business Act etc.)

Members of Boryokudan, Godaime Kudo-kai who were engaging in loan sharking arranged for borrowers to remit a total of around 5.8 million yen in repayment for nine months to multiple bank accounts opened in the name of other parties. They were arrested for violating the Act on Punishment of Organized Crimes (concealment of criminal proceeds).

(February 2013, Fukuoka Prefectural Police)

[Case 15] Case of operating an unauthorized adult entertainment business and making customers pay into an account opened in the name of another party

(Concealment of criminal proceeds related to unauthorized adult entertainment business)

A woman operating an unlicensed adult entertainment business (bar) prepared a bank account in another person's name. The account was used to receive customers' credit-card payments and payment on credit, and total of approximately 14 million yen was deposited. The woman was arrested for the violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds).

(October 2011, Osaka Prefectural Police)

F. Safe-deposit Box

(a) Present Situation

A safe-deposit box is a lease of depository. Anyone can operate safe-deposit box business, but most popular operator is deposit-taking institutions, such as banks. They lease their depositories in their premises for profit.

Safe-deposit boxes of deposit-taking institutions are mainly used to store important documents, such as securities, bankbook, bond, deed or property, such as precious metals and stones. However, as deposit-taking institutions do not check the stored items, goods in safe-deposit boxes have high secrecy.

Such a characteristic can be a convenient instrument to physically conceal criminal proceeds.

The Act on Prevention of Transfer of Criminal Proceeds requires deposit-taking institutions to conduct CDD including verification at the time of transaction, and prepare and preserve verification records and transaction records when they make contracts of lease of safe-deposit box with customers. The Act also requires them to make STRs if received property is suspected to be criminal proceeds or customers are suspected to be involved in activities which fall under the crime of concealment of criminal proceeds, considering the result of CDD including verification at the time of transaction and other circumstances.

(b) Case

As to cases where safe-deposit boxes were misused for money laundering in foreign countries, there were cases where cash, which was criminal proceeds, was preserved in a safe-deposit box of bank to prevent the revelation of crime and cases where offender used fictitious names and made lease contracts of safe-deposit box with many banks to conceal crime proceeds.

In Japan, there were cases where an offender cheated a victim of his/her promissory note, converted it to cash, and preserved a portion of cash in a safe-deposit box of a bank which the offender's relative made a contract for. Such cases show how those who attempt money laundering misuse safe-deposit boxes to physically preserve proceeds, while concealing the true user by making lease contracts of safe-deposit box under the name of another party.

[Case16] Case of concealing cash that was converted from a defrauded promissory note, by using a safe-deposit box in a deposit-taking institution

(Concealment of criminal proceeds related to fraud)

A board of directors of the company defrauded a victim of his promissory note by making up fictitious transactions etc., converted it to cash, and preserved approximately 40 million yen which was a part of the criminal proceeds in a safe-deposit box of a bank which his relative contracted for. He was arrested for the violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds).

(July 2013, Miyazaki Prefectural Police)

G. Bills and Checks

(a) Present Situation

Bills and checks are useful payment instruments which substitute for cash because they are used in clearance system with high credibility or settlement by deposit-taking institutions. They are widely used in Japan's economy. Bills and checks are physically lighter than cash of equivalent value and easy to transport. They are also easy to cash through deposit-taking institutions. In addition, they are easy to transfer through endorsement and have high liquidity.

However, bills and checks can be efficient measures to receive and conceal criminal proceeds because of such characteristics.

The Act on Prevention of Transfer of Criminal Proceeds requires deposit-taking institutions to conduct CDD including verification at the time of transaction, and prepare and preserve verification records and transaction records when they make contract of bill discount and when they carry out transactions that receive and pay bearer checks^{*1} or checks drawn to self^{*2} that exceed 2 million yen and not crossed (In the case where cash receipt and payment is involved and related to exchange transaction or checks drawn to self, 100,000 yen). The Act also requires them to make STRs if received property is suspected to be criminal proceeds or customers are suspected to be involved in activities which fall under the crime of concealment of criminal proceeds, considering the result of CDD including verification at the time of transaction and other circumstances.

Furthermore, checking account is necessary to draw bills or checks in general. The Act on Prevention of Transfer of Criminal Proceeds requires deposit-taking institutions to make CDD including verification at the time of transaction on opening accounts.

(b) Case

As to cases where bills or checks were misused for money laundering, in foreign countries, there were cases where they were misused to smuggle huge amount of funds as they are easy to transport and cases where they were misused as payment instruments for drug smuggling.

In Japan, there were cases where loan sharks made many borrowers draw and send checks etc. by post for principal and interest payments, and then checks were collected by deposit-taking institutions and transferred to accounts in the name of another party. These cases show how those who attempt money laundering misuse bills or checks for quick transfer of criminal proceeds or disguising criminal proceeds as legal funds.

^{*1} Checks drawn as bearer checks stipulated in Article 5, paragraph 1, item 3 of the Check Act or checks deemed to be bearer checks pursuant to the provision of paragraph 2 or 3 of the said Article and not crossed under Article 37, paragraph 1 of the Act.

^{*2} Checks drawn to self, pursuant to the provision of Article 6, paragraph 3 of the Check Act and not crossed under Article 37, paragraph 1 of the Act.

[Case17] Case of concealing criminal proceeds related to illegal money lending business by Boryokudan associates, by making customers issue checks, commissioning a bank to collect them and receiving remittance to bank accounts opened in the name of other parties

(Concealment of criminal proceeds etc. related to the Money Lending Business Act)

Associates of Boryokudan, Rokudaime Yamaguchi-gumi who were engaging in loan sharking commissioned a banker which had no knowledge of the situation to collect checks received from borrowers as repayments and arranged for the remittance of a total of around 1.4 million yen in cash to multiple bank accounts opened in the name of other parties. The offenders were arrested for violating the Act on Punishment of Organized Crimes (concealment of criminal proceeds).

(August 2013, Osaka Prefectural Police)

H. Assessment of Products and Services Handled by Deposit-taking Institutions

Deposit-taking institutions provide various products and services, including accounts which secure safe fund management, deposit transactions which can make quick preparation or preservation of funds regardless of time and place, exchange transactions which can transfer funds between remote areas or many people in quick and secure way, safe-deposit boxes which can provide safe preservation for property while maintaining secrecy, and bills and checks which are negotiable and easy to transfer.

However, these products and services can be convenient measures to conduct ML/TF because of characteristics they possess. Deposit-taking institutions have a wide range of customers, from individuals to big companies. They also handle huge number of transactions. It is not easy to find out customers and transactions related to ML/TF and eliminate them.

Actually, there were cases where accounts, deposit transactions, exchange transactions, safe-deposit boxes, bills and checks were misused for receipt or concealment of criminal proceeds. Products and services of deposit-taking institutions have the risk to be misused for ML/TF.

On top of that, based on STRs and cases where products and services were misused for money laundering, if following elements are included in the situation of transaction or types of customer (factors discussed in “Risk assessment focusing on transaction form”, “Risk assessment focusing on types of customer”, and “Risk assessment focusing on jurisdiction” are excluded. The same applies to the following.), products and services of deposit-taking institutions have higher risk to be misused for ML/TF.

- Transactions that deposit and withdrawal are made in huge amount of cash or check, especially large amount transactions which are inappropriate to the customer’s income or asset or transactions of deposit and withdrawal in cash although it is suitable to use remittance or cashier’s check
- Frequent transactions in a short period and deposit and withdrawal are made in huge amount of cash or check
- Deposit, withdrawal, and safe-deposit box transactions which are suspected that names of account holders or safe-deposit box users are fictitious names, false names, or shell companies’ names
- Transactions related to accounts which receive remittance from persons suspected that they use other names or fictitious names
- Deposit and withdrawal transactions through accounts related to customers who are found out that they hold many accounts, including customers who hold many accounts under different names, including name with business name
- Transactions related to accounts that frequent or large amount deposit and withdrawal are made right after the account was opened, but it was cancelled or transactions stopped later

- Transactions related to accounts which don't usually show movement of funds, but suddenly deposit and withdrawal of large amount are made
- Transactions where cash is withdrawn from an account and the cash is transferred right after the withdrawal (including cases where the transaction is treated as cash transaction for slip process). Especially, cases where the name of remittance client is different from the holder's name of account which withdrawal is made
- Transactions related to accounts that frequent remittances are made to many people. Especially, cases where huge amount of money is deposited just before remittances
- Transactions related to accounts that receive funds from many people frequently. Especially, cases where large amount of funds is transferred or withdrawn from the account right after the receipt of funds

To mitigate the risk that products and services of deposit-taking institutions are misused for ML/TF, the Act on Prevention of Transfer of Criminal Proceeds requires deposit-taking institutions to conduct CDD including verification at the time of transaction when they provide specified products and services. Guidelines for Supervision by the Financial Services Agency require deposit-taking institutions to develop internal management systems to carry out the obligations.^{*1}

Regarding industry groups, they support AML/CFT measures of each business operator by providing case examples, reference examples or trainings. Japanese Bankers Association always follows the progress on anti-ML/TF measures by FATF and continuously exchange and share information with bankers associations overseas, as well as addresses FATF Mutual Evaluation. In this way, the Association promotes organizational measures to prevent domestic and overseas ML/TF cases. Business operators make efforts to establish and enforce their internal management systems, too. For example, they set up division in charge, develop internal regulations and manuals, provide periodic training for anti-ML/TF measures, conduct internal audit, screen out transactions that are likely to have higher risk, and adopt enhanced monitoring for transactions with higher risk, etc.

(2) Funds Transfer Service

A. Present Situation

Funds transfer service means exchange transaction service (limited to transactions that the amount is equal or less than 1 million yen per remittance) provided by general business operators other than deposit-taking institutions. With the demand for reasonable and convenient remittance service along with spread of internet, the business was introduced in 2010, as a portion of deregulation.

Those who wish to operate funds transfer service have to be registered by the Prime Minister under the Payment Services Act. As of the end of March 2014, the number of Funds Transfer Service Providers was 35. There were 10.38 million remittances of 188.6 billion yen in 2012.

With the advance of globalization, it is expected that needs for funds transfer service, such as remittance by foreign people in Japan to their home countries, will increase in the future.

^{*1} The Agency requires development of internal management systems. Such systems include system to conduct proper verification at the time of transaction, system to conduct STRs, system to conduct integrated and comprehensive management for verification at the time of transaction and STRs, and system to conduct proper anti-ML/TF measures at overseas business locations.

Table 2-5 [Number of Performance by Funds Transfer Service]

| Category \ Year | 2010 | 2011 | 2012 |
|---|---------|---------|------------|
| Number of remittances a year | 216,955 | 765,431 | 10,388,222 |
| Transaction volume a year (million yen) | 14,006 | 42,388 | 188,574 |
| Number of registered Funds Transfer Service Providers | 11 | 25 | 32 |

Note: Data from the Financial Services Agency

There are three main remittance methods in funds transfer service. One is that a client brings cash to a Funds Transfer Service Provider and a receiver receives cash at a different business location. Another is that fund is transferred between a client's account and a receiver's account which were opened by a Funds Transfer Service Provider. The other is that a Funds Transfer Service Provider issues instruments related to specified amount recorded in server (money order) and payment is done to the person who brings the instrument.

Funds transfer service is a convenient system providing a quick and secure way to transfer funds all over the world for a reasonable fee. However, the service is an easy measure to transfer criminal proceeds to foreign countries where law or transaction system is different. As a result, traceability of the funds decreases.

The Act on Prevention of Transfer of Criminal Proceeds requires Funds Transfer Service Providers to conduct CDD including verification at the time of transaction and prepare and preserve verification records and transaction records when they make exchange transactions etc. which include receipt and payment of cash exceeding 100,000 yen. The Act requires them to make STRs if received property is suspected to be criminal proceeds or customers are suspected to be involved in activities which fall under the crime of concealment of criminal proceeds, considering the result of CDD including verification at the time of transaction and other circumstances.

The Payment Services Act provides that the authorities can conduct on-site inspection and issue business improvement order etc. against Funds Transfer Service Providers if necessary. The Act also provides the competent authorities with grounds for rejecting the application and cause of cancellation of the registration of "legal entities which don't develop the system to perform proper and secure funds transfer services". The Guideline for Administrative Processes by the Financial Services Agency points out items related to "System development for proper and secure conduct of funds transfer service" when Funds Transfer Service Providers develop internal management system regarding CDD including verification at the time of transaction and STRs under the Act on Prevention of Transfer of Criminal Proceeds. These are examination items at the time of application for registration and constitute the regime for guidance by authorities to prevent ML/TF.

Japan Payment Service Association, which is an industry group, supports AML/CFT measures by business operators through developing self-regulations and providing trainings.

Besides, business operators make efforts to establish and enforce internal management system, too. For example, they set up a division in charge, develop internal regulations and manuals, provide periodic training, conduct internal audit, screen out transactions that are likely to have higher risk, and adopt enhanced monitoring for transactions with higher risk etc. when they adopt anti-ML/TF measures etc.

B. STRs

There were 1,087 STRs by Funds Transfer Service Providers from 2011 to 2013. Main reasons for reporting were "suspicious transactions that customers might provide false information regarding remittance purpose or source of funds when they send money overseas (392 reports, 36.1%)" and "frequent transactions in a large amount of cash in a short period (179reports, 16.5%)".

On top of that, Funds Transfer Service Providers report transactions suspected to be Money Mule ^{*1} in the recent case. They asked a customer the purpose of remittance and found out that he was finding a job and applied to a consulting firm through website of a foreign country. After that, money was remitted to his bank account and he was ordered to send the money to a foreign country.

C. Case

When funds transfer service was introduced, with the expansion of business operators conducting exchange transactions, which had been only allowed to deposit-taking institutions, it was expected that customers could enjoy cheap, quick, and convenient service with various money transfer methods.

However, some people came to misuse funds transfer service by disguising illegal remittance as lawful one for ML since overseas remittance at a reasonable fee became popular. Specifically, there are cases of Money Mule and cases where foreign visitors to Japan remit criminal proceeds overseas. Money Mule using funds transfer service is especially related to illegal money transfer through Internet banking services. There are cases where offenders steal information of Internet banking users by “Phishing” ^{*2} or a modus operandi using computer viruses that steal ID and password. Perpetrators of these cases illegally access to Internet banking, transfer deposit/savings money to a different account, and make Money Mule remit money by misusing funds transfer service.

[Case18] Case of remitting money to Russia through Funds Transfer Service Providers without justifiable reasons (Money Mule case)

(Violation of the Act on Prevention of Transfer of Criminal Proceeds by a Filipino)

A Filipino registered on a recruitment website for foreigners, then received a job offer of management assistant. The offer was made in the name of a consulting firm in U.K. The job was to receive remittance to his bank account, take 5% of the amount as a reward, and send the rest amount to a receiver in Russia through a Funds Transfer Service Provider. While knowing that the money was related to money laundering and it was not a legal transaction, he conducted overseas remittance and gave the receiver the transaction number, which was necessary to receive the remittance. He was arrested for the violation of the Act on Prevention of Transfer of Criminal Proceeds (Provision of an exchange transaction card etc.for value).

(January 2014, Aichi Prefectural Police)

[Case19] Case of restocking pooled funds for underground banking, by misusing Funds Transfer Service Providers

(Violation of the Banking Act by an Indonesian who was staying illegally)

An Indonesian man who was illegally staying in Japan made unlawful remittance to Indonesia through Funds Transfer Service Providers by the request of many Indonesians who were also illegally staying in Japan. He was arrested for violation of the Banking Act (unlicensed operation). In this case, he used a copy of a passport of his acquaintance who was a legal resident, as his identification document when he contracted for funds transfer service.

(November 2012, Shizuoka Prefectural Police)

^{*1} A method of money laundering. In Money Mule, a third party is utilized as a carrier of criminal proceeds. Third parties are recruited through email or recruitment websites to send criminal proceeds.

^{*2} An operation that requires to enter identification code related to the access control function, by pretending to be access controller.

The suspect used a Funds Transfer Service Provider that outsourced operations to other company regarding member registration, conducting customer identification verification, and acceptance of remittance request to Indonesia, etc., but the Funds Transfer Service Provider did not take proper and reliable measures to secure outsourcing. For example, the operator's monitoring was based on oral report from the outsourcing company only and supervision was not conducted. From those facts, the operator received business suspension order and business improvement order under the Payment Services Act.

(January 2013, the Kanto Finance Bureau)

D. Assessment

The Payment Services Act regulates Funds Transfer Service Providers. Operators that handle exchange transaction of small amount have the obligation to be registered under the Act. Some operators have high risk to be misused for money laundering because they conduct remittance to many countries or accept occasional customers. Some operators, however, handle only domestic exchange transactions or repayment for returned or canceled products of mail order. Such operators have low risk of ML/TF. In this manner, business schemes of operators vary.

In addition, the scales of operators also vary, from major companies listed in the First Section of Tokyo Stock Exchange to small and medium-sized companies. Risk management system, which is corresponding and suitable to characteristics and scales of operators, should be developed.

Considering characteristics of exchange transaction business and the fact that some Funds Transfer Service Providers provide service to remit to many countries, funds transfer service can be convenient measures for ML/TF.

Actually, there were money laundering cases where a third party, who was not involved in predicate offenses, was misused or cases where other person's ID card was abused for identity theft. In view of the above mentioned environment, funds transfer service has the risk to be misused for ML/TF.

In addition, based on STRs and cases misused for money laundering, if circumstances at transaction or type of customers fall under the following factors, it is considered that funds transfer service has higher risk to be misused for ML/TF.

- Transactions suspected that customers might provide false information about the purpose or source of funds of overseas remittance
- Frequent transactions in a short period and large amount remittance in cash etc., especially, transactions which are slightly below the threshold
- Transactions suspected that customer name might be fictitious or other person's name
- Transactions suspected that customers might not carry out for their own sake

To mitigate the risk that funds transfer service is misused for ML/TF, Funds Transfer Service Providers have obligations under the Act on Prevention of Transfer of Criminal Proceeds. Operators are making efforts to develop the system to perform the obligation, based on the Guideline for Administrative Processes by the Financial Services Agency.

Incidentally, as participation rate to Japan Payment Service Association, self-regulatory organization of the business, is very high, promotion of voluntary restraints according to industry guidance by the Association is relatively easy.

(3) Foreign Currency Exchange

A. Present Situation

Many Japanese employ foreign currency exchange to obtain foreign currency when they go overseas for sightseeing or business. Foreign currency exchange is also employed by foreign people in Japan to get Japanese yen.

Currently, foreign currency exchanging operators are roughly divided into deposit-taking institutions and other business operators. The latter includes hoteliers, travel agencies, and secondhand dealers. They deal with foreign exchange transactions as side business for the convenience of customers in their main business.

In foreign currency exchange transaction, money derived from crimes can be converted to different foreign currency. Other than that, criminal proceeds can be moved beyond borders by changing low-value bills to large denomination bills in different currency. Foreign exchange can be an instrument to transfer huge amount of criminal proceeds easily and physically.

The Act on Prevention of Transfer of Criminal Proceeds requires foreign currency exchanging operators to conduct CDD including verification at the time of transaction and prepare and preserve verification records and transaction records when they conduct transactions that exceed the value equivalent to 2 million yen per transaction. The Act also lays obligation of STRs if received property is suspected to be criminal proceeds or customers are suspected that their activities could fall under concealment of criminal proceeds, based on the result of CDD including verification at the time of transaction or other circumstances.

The Foreign Exchange and Foreign Trade Act requires foreign currency exchanging operators to report to Minister of Finance if total transaction volume a month exceeds the value equivalent to 1 million yen. Ministry of Finance conducts on-site inspection to foreign currency exchanging operators to make sure for them to comply with the Act on Prevention of Transfer of Criminal Proceeds and the Foreign Exchange and Foreign Trade Act.

Table 2-6 [Situation of Transactions by Foreign Currency Exchange Operators (August 2013)]

| Reporter | Number of reporters (Note 3) | Number of transactions | Transaction value (1 million yen) | Value per transaction (1,000 yen) |
|--|---------------------------------|------------------------|--------------------------------------|--------------------------------------|
| Deposit-taking institutions | | | | |
| Major banks | 4 | 320,916 | 24,108 | 75.1 |
| Regional banks | 95 | 210,413 | 13,906 | 66.1 |
| Shinkin banks | 122 | 6,749 | 651 | 96.5 |
| Foreign banks | 15 | 1,419 | 6,286 | 4429.5(Note 4) |
| Other deposit-taking institutions (Note 2) | 7 | 47,004 | 3,511 | 74.7 |
| | | | | |
| Excluding deposit-taking institutions | | | | |
| Funds transfer service /credit card business | 4 | 198,874 | 10,985 | 55.2 |
| Hoteliers | 79 | 10,721 | 271 | 25.3 |
| Travel agencies | 30 | 5,064 | 706 | 139.4 |
| Secondhand dealers | 39 | 41,673 | 3,042 | 73.0 |
| Business related to airport | 4 | 164,924 | 5,651 | 34.2 |
| Large-scale retailers | 6 | 478 | 14 | 28.8 |
| Others | 16 | 17,028 | 1,193 | 70.0 |
| Total | 421 | 1,025,263 | 70,324 | 68.5 |

Note 1: Data from the Ministry of Finance

2: The Norinchukin Bank, Shinkin Central Bank, credit association, Japan Post Bank, and other banks

3: Number of operators that conducted foreign exchange transactions exceeding value equivalent to 1 million yen for business in August 2013

4: Value per transaction is large because some banks procure/buy foreign currency with other financial institutions.

In addition, the Ministry of Finance makes brochures for foreign currency exchanging operators to promote compliance and publishes brochures on the website of the Ministry to provide information, along with inspection manuals. Furthermore, the Ministry holds briefing session on revision of inspection manual for foreign currency exchanging operators and sends them the request document that requires thorough implementation of CDD including verification at the time of transaction and making STRs under joint signature with the National Police Agency. If any requirements not fulfilled under the Act on Prevention of Transfer of Criminal Proceeds and the Foreign Exchange and Foreign Trade Act during on-site inspection are found, that deficiencies would be pointed out and required to be improved in each time.

So far, correction order to a foreign currency exchanging operator has not been issued, but if improper verification at the time of transaction or insufficient system of STRs is found, written or oral order for improvement will be issued as administrative guidance, according to the degree.

These obligations are the measure to understand the true state of foreign exchange transaction and prevent the transaction from being misused for ML/TF.

Some foreign currency exchanging operators make voluntary efforts to deal with ML/TF. These operators, mainly those who handle large volume of foreign exchange transaction, set lower standard for verification at the time of transaction than legal threshold. Other than that, they make efforts to establish and reinforce internal management system, including development of manual to deal with ML/TF, setting up specified division, and implementation of training and internal audit. On the other hand, operators who handle lower volume show a tendency to be insufficient in taking such measures.

Incidentally, in Japan, license or registration is not necessary to operate foreign currency exchanging business. Anyone can conduct the business. In the third round Mutual Evaluation by the FATF, such a situation was pointed out as deficiency. New "40 Recommendations" of the FATF (Recommendation 26) requires that "Businesses providing a service of currency changing should be licensed or registered, and subject to effective systems for monitoring and ensuring compliance with national AML/CFT requirements.

B. STRs

Number of STRs by foreign currency exchanging operators was 5,891 from 2011 to 2013. Major reasons for reporting were repeating exchange transactions under threshold to intentionally avoid customer identification (3,063 reports, 52.0%) and exchange transactions of large amount of cash (997 reports, 16.9%).

C. Case

As to cases where foreign exchange was misused for money laundering in foreign country, there were cases where those who operated foreign exchange business without registration were involved in money laundering related to drug smuggling.

In Japan, there were cases where an offender committed murder attended with robbery overseas, gained huge foreign currency from the crime and then converted it to Japanese yen through a third party etc.

[Case 20] Case of exchanging foreign currency related to robbery into Japanese currency through a third party

(Concealment of criminal proceeds related to a murder-robbery case abroad)

An unemployed man murdered a Japanese female roommate and robbed around Hong Kong \$1.4 million in cash stored for the purchase of house in Macau and arranged an acquaintance who was unfamiliar with the situation to exchange the money into Japanese currency at a foreign currency exchanging operator in Japan several times. The offender was arrested for violating the Act on Punishment of Organized Crimes (concealment of criminal proceeds).

(September 2013, Saitama Prefectural Police)

D. Assessment

In general, foreign exchange transactions are carried out in cash (currency). The transaction has high liquidity and individual information is not always required to obtain or transfer foreign currency, so it can be a convenient instrument for ML/TF.

Actually, there are cases where foreign currency was converted to Japanese yen through a third party who didn't know that the currency was criminal proceeds gained overseas. So, foreign exchange has the risk to be misused for ML/TF.

In addition, based on STRs and cases misused for money laundering, if circumstances at transaction or type of customers fall under the following factors, it is considered that foreign exchange has higher risk for ML/TF than usual foreign exchange.

- Transactions of large amounts in cash

- Frequent transactions in a short period
- Transactions suspected that verification at the time of transaction is intentionally avoided
- Transactions suspected that customers might not carry out for their own sake
- Transactions related to forged currency, stolen currency, etc. or suspected related to them

To mitigate the risk that foreign exchange is misused for ML/TF, the Act on Prevention of Transfer of Criminal Proceeds requires operators to conduct CDD including verification at the time of transaction and make STRs. Other than that, relevant authorities give guidance and operators make voluntary efforts.

(4) Insurance

A. Present Situation

Basically, insurance contracts promise to pay insurance benefit in connection with the life or death of individuals or promise to compensate for damages caused by a certain incidental accident. Payment is limited to cases where those conditions, which have uncertainty, apply to. This characteristic significantly mitigates the risk to be misused for ML/TF.

However, each insurance product varies on the characteristics. Insurance companies provide some products which have cash accumulation features. Unlike insurance products that provide benefit limited to incidental accidents in future, some products are suitable to build asset and they include more definite requirement, such as benefit related to maturity. In many cases, these products may provide considerable cash as surrender value when contracts are cancelled before maturity.

The Act on Prevention of Transfer of Criminal Proceeds requires insurance companies to conduct CDD including verification at the time of transaction, and prepare and preserve verification records and transaction records when they make contract of insurance with cash accumulation features, when contractor is changed, when they make payment of matured endowment or cash as surrender value, and when they make transactions which exceed the value equivalent to 2 million yen. The Act also requires them to make STRs if received property is suspected to be criminal proceeds or customers are suspected to be involved in activities which fall under the crime of concealment of criminal proceeds, considering the result of CDD including verification at the time of transaction and other circumstances.

License from the Prime Minister is necessary to operate insurance business under the Insurance Business Act. The Act provides that competent authorities can issue report order or business improvement order or conduct on-site inspection to insurance companies if necessary. In guidelines and policies for supervision to insurance companies, points to note are also described for the development of internal management system related to CDD including verification at the time of transaction and STRs under the Act on Prevention of Transfer of Criminal Proceeds. These rules constitute the regime for guidance by authorities to prevent ML/TF.

In the industry, Life Insurance Association of Japan and General Insurance Association of Japan introduced registration system of contract's content and inquiry system to share information among member companies and provide standard for judgment when they undertake contracts and pay benefit. The Associations also create various materials, such as handbook and Q&A, to support AML/CFT measures by member companies.

Insurance companies take measures to establish and enforce internal management system, too. For example, they set up division in charge, develop internal regulations and manuals, provide periodic training, conduct internal audit, screen out transactions that are likely to have higher risk, and adopt enhanced monitoring for transactions with higher risk, etc.

B. STRs

There were 5,516 STRs from 2011 to 2013 (4,128 in life insurance and 1,388 in general insurance).

Seeing major reasons for reporting, 3,498 reports (84.7%) were related to Boryokudan and related parties in life insurance sector. In indemnity insurance sector, 611 reports (44.0%) were about unnatural transactions or transactions related to customers who show unnatural behavior or tendency based on the knowledge and experience of staff, and 540 reports (38.9%) were related to Boryokudan and related parties.

Furthermore, in life insurance sector, the companies paid attention to some cases where a lot of cash was paid for premium (56 reports, 1.4%). For example, a customer tried to make a payment in a lump sum in cash, several tens of millions yen, for premium. Insurance companies reported these cases because the source of funds was unclear.

C. Case

As to foreign cases where insurance was misused for money laundering, there were cases where drug smugglers put criminal proceeds derived from drug smuggling to purchase of life insurance and cancelled the insurance later to carry out money laundering.

In Japan, as to cases where criminal proceeds derived from predicate offenses changed the form, there were cases where criminal proceeds derived from prostitution were abused to purchase life insurances with cash accumulation features.

[Case 21] Case of using proceeds from prostitution for premium of life insurance

(Receipt of criminal proceeds related to violation of the Anti-Prostitution Act)

A company executive provided a building to a man managing a massage parlor and received remittance to his bank account on the pretext of rents in the knowledge that the funds were proceeds from prostitution. As a result, he was arrested for violation of the Act on Punishment of Organized Crimes (receipt of criminal proceeds). He misused part of the proceeds for premium of savings-type life insurance which was contracted under the name of his own and his child.

(April 2013, Gifu Prefectural Police)

D. Assessment

If offenders receive funds or repayment through insurance products with cash accumulation features, criminal proceeds can be converted to asset or deferred asset. Insurance products with cash accumulation features can be misused as a convenient measure for ML/TF.

Actually, there were cases where illegal proceeds related to violation of the Anti-Prostitution Act were used to buy insurance products with cash accumulation features. Such insurance products have risk for ML/TF.

Furthermore, based on STRs and cases where criminal proceeds derived from predicate offenses changed the form, if circumstances at transaction or type of customers fall under the following factors, it is considered that insurance products have higher risk for ML/TF than usual.

- Transactions related to contractors who pay premium in a lot of cash
- Unnatural transactions or transactions related to contractors who show unnatural behavior

To mitigate the risk that insurance is misused for ML/TF, the Act on Prevention of Transfer of Criminal Proceeds requires insurance companies to conduct CDD including verification at the time of transaction and make STRs. In addition, competent authorities develop guidance and supervision based on license system and industries and business operators make voluntary efforts.

(5) Investment

A. Present Situation

Other than deposit at deposit-taking institutions, investment on stocks, bonds, and other investment products is also a useful way to manage funds. Investment instruments include commodity futures transactions of minerals and farm products, as well as financial products, such as stocks, bonds, and investment trusts.

Surveying investment transactions in Japan, total transaction volume of listed stocks at Tokyo Stock Exchange (First Section and Second Section) was 643.7700 trillion yen in 2013.

Table 2-7 [Transaction Volume of Stocks]

(100 million yen)

| | 2011 | 2012 | 2013 |
|----------------------------|-----------|-----------|-----------|
| First Section, TSE | 3,415,875 | 3,067,023 | 6,401,938 |
| Second Section, TSE | 10,445 | 9,102 | 35,762 |
| Total | 3,426,320 | 3,076,125 | 6,437,700 |

Note: Data from Tokyo Stock Exchange

Regarding commodity futures transactions, trading volume at commodity exchanges in Japan (Tokyo Commodity Exchange and Osaka Dojima Commodity Exchange) was 27.21 million contracts in 2013. Total amount was 86.2510 trillion yen and margin balance at the end of December was 150.7 billion yen.

**Table 2-8 [Transaction Amount of Commodity Futures Transactions
(Domestic Commodity Exchanges)]**

| | | 2011 | 2012 | 2013 |
|---|----------------------|------------|------------|------------|
| Volume (number of contract) | Farm products | 2,847,956 | 1,812,841 | 907,341 |
| | Minerals | 31,670,031 | 25,479,111 | 26,307,061 |
| Transaction amount (100 million yen) | | 988,374 | 785,554 | 862,510 |
| Margin balance (end of December) (100 million yen) | | 1,457 | 1,598 | 1,507 |

Note 1: Data from Japan Commodity Clearing House Co., Ltd.

2: “Farm products” in volume column is the total transaction volume of agricultural product market, fisheries market, agricultural products index market, and sugar market. “Minerals” is the total transaction volume of rubber market, precious metals, oil market, Chukyo oil market, and Nikkei-TOCOM Commodity Index market.

Investment has different characteristics from deposit/savings. Customers have the risk of losing principal when value of investment targets fluctuates. However, at the same time, they can expect higher return than deposit/savings if managed effectively.

Considering the risk to be misused for ML/TF, large funds can be converted to various products through investment, the source of funds becomes unclear, and tracking criminal proceeds becomes difficult.

The Act on Prevention of Transfer of Criminal Proceeds requires financial instruments business operators and commodity derivatives business operators that handle investment instruments to conduct CDD including verification at the time of transaction, and prepare and preserve verification records and transaction records at the time of opening account, transactions of financial instruments, and transactions at commodity markets. The Act also requires financial instruments business operators and commodity derivatives business operators to make STRs if received property is suspected to be criminal proceeds or customers are suspected to be involved in activities which fall under the crime of concealment of criminal proceeds, considering the result of CDD including verification at the time of transaction and other circumstances.

To operate financial instruments businesses, operator is required to be registered by the Prime Minister under the Financial Instruments and Exchange Act. Commodity derivatives business operators need the permission of competent ministers (the Minister of Agriculture, Forestry and Fisheries and the Minister of Economy, Trade and Industry) under the Commodity Derivatives Act.

Furthermore, the Financial Instruments and Exchange Act and the Commodity Derivatives Act stipulate that competent authorities can conduct on-site inspection and require the submission of reports or order for business improvement to each business operator, if necessary.

The Guidelines for Supervision to financial instruments business operators and commodity derivatives business operators indicate points to note for development of internal management system regarding CDD including verification at the time of transaction and making STRs under the Act on Prevention of Transfer of Criminal Proceeds. As above, measures to prevent ML/TF have been established by authorities.

Incidentally, Japan Securities Dealers Association ^{*1} and Commodity Futures Association of Japan ^{*2} create Q&A (FAQ) or other materials regarding the Act on Prevention of Transfer of Criminal Proceeds, etc. to support anti-ML/TF measures for member companies. Japan Securities Dealers Association also creates “Point of view about ‘STRs’ for members” to help members have deeper understanding about STRs and enhance effectiveness of reports.

Each Business operator makes efforts to establish and enforce internal management system to conduct AML/CFT measures, too. For example, they set up a division in charge, develop internal regulations and manuals, provide periodic training, conduct internal audit, screen out transactions that are likely to have the risk of ML/TF, and adopt enhanced customer due diligence according to the degree of risks.

B. STRs

There were 20,129 STRs by financial instruments business operators and 61 STRs by commodity derivatives business operators from 2011 to 2013. Main reasons for reporting were related to accounts opened by fictitious name or other party’s name in both businesses (5,402 reports (26.8%) by financial instruments business operators and 35 reports (62.5%) by Commodity derivatives business operators). Financial instruments business operators also report unnatural transactions or transactions related customers who show unnatural behavior or tendency based on the knowledge and experience of staffs (5,317 reports, 26.5%).

C. Case

As to cases where investment was misused for money laundering, there were cases where illegal loan was abused for stock investment and criminal proceeds derived from embezzlement were invested on commodity futures.

[Case 22] Case of investing illegally gained loan in stock trading

(Concealment of criminal proceeds related to fraud)

The offender, a member of the board of directors of the company, received a loan of 80 million yen by pretending that his company’s financial state was sound. He arranged persons who were unfamiliar with the situation to withdraw 5 million yen and deposit it into a securities account in the name of third party. He was arrested for the violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds). He invested the criminal proceeds transferred to the securities account in stock trading.

(January 2011, Aichi Prefectural Police)

^{*1} Japan Securities Dealers Association is a self-regulation organization which is approved under the Financial Instruments and Exchange Act. The Association makes efforts for sound development of the industry and protection of investors, including by setting up self-regulatory rules. All securities companies join the Association (255 companies as of the end of March 2014) and they have the obligation to comply with rules of the Association.

^{*2} Commodity Futures Association of Japan is a self-regulation organization which is approved under the Commodity Derivatives Act. The Association conducts various self-regulation works regarding to commodity futures business for fair and smooth commodity derivative transactions and protection of clients. All commodity futures transaction dealers join the Association (51 companies as of July 4, 2014) and they have the obligation to comply with rules of the Association.

[Case 23] Case of investing criminal proceeds from corporate embezzlement in commodity futures trading

(Concealment of criminal proceeds related to corporate embezzlement)

An office worker, who was in charge of accounting, remitted money 24 times from company's account that he managed for his duty to an account in the name of another party, totaling 610 million yen. He was arrested for the violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds). He invested all the criminal proceeds in commodity futures trading.

(May 2013, Chiba Prefectural Police)

D. Assessment

There are many investment products. Through these products, it is possible to convert criminal proceeds to various rights and commodities. Some investment products have complex scheme and it is difficult to track the fund related to the investment. Investment can be a convenient instrument for ML/TF.

Actually, there are cases where criminal proceeds from fraud or embezzlement were invested on stock or commodity futures. Investment has the risk to be misused for ML/TF.

In addition, based on the factors including STRs and cases misused for money laundering, where nature of transaction or type of customers fall under the following factors and other applicable conditions, it is considered that investment has higher risk to be misused for ML/TF.

- Transactions that customer name is suspected to be fictitious name or other person's name
- Unnatural patterns of transactions or transactions related to customers who show unnatural behavior or attitude, etc.

To mitigate the risk that investment is misused for ML/TF, the Act on Prevention of Transfer of Criminal Proceeds requires specified business operators to conduct CDD including verification at the time of transaction and to make STRs. In addition, competent authorities develop guidance and supervision based on registration system or licensing system and SRBs of industries and specified business operators make self-regulating efforts.

Regarding investment through financial instruments business operators (securities trading and other transactions), customers are allowed to transfer funds to their own account only, in principle. This characteristic is useful to mitigate the risk to be misused for ML/TF.

(6) Real Estate

A. Present Situation

Real estate has high value. It is easy to exchange to large amount of cash. Result of evaluation may differ widely depending on the utility value, usage of the property, etc. These facts make it possible for offenders to transfer criminal proceeds with ease by padding the price of real estate. In addition, it is possible to make source of funds or beneficial ownership of real estate unclear by purchasing it through an account of fictitious name or other person's name.

Among real estate products, building lots and buildings are especially valued and actively traded in Japan. Building lots and buildings business operators, who handle transactions of these properties, are subject to relevant laws and regulations.

There are approximately 122,500 building lots and buildings business operators as of the end of March 2013. The size of business varies depending on each agent. Some big agents handle some thousands transactions a year, but most are private small and medium-sized agents, providing community-based operation.

The Act on Prevention of Transfer of Criminal Proceeds requires building lots and buildings business operators to conduct CDD including verification at the time of transaction and prepare and preserve verification records and transaction records when they make a purchase and sale contract of building lots and buildings or conduct intermediary or agency service thereof. The Act also requires to make STRs when received property is suspected to be criminal proceeds or customers are suspected that their activities could fall under concealment of criminal proceeds, based on the result of CDD including verification at the time of transaction or other circumstances.

Building lots and buildings business operators are required to operate with license under the Building Lots and Buildings Transaction Business Act. The Act stipulates that every time building lots and buildings transaction business is conducted, every office must keep books in which name, address, etc. of counterparty to or person requesting agency services for the sale and purchase, exchange, or lease are described. These rules ensure proper and secure conduct of buildings lots and buildings business.

Furthermore, real estate industry secures effective implementation of the Act on Prevention of Transfer of Criminal Proceeds, including information sharing efforts. For example, "Liaison council for prevention of transfer of criminal proceeds and prevention of damage by anti-social forces in real estate business" made an agreement to facilitate business operators' developing a system to take appropriate measures with clear allocation of responsibility, and distributes leaflets for announcement and education.

B. STRs

There were 16 STRs by building lots and buildings business operators from 2011 to 2013. Among the reasons for reporting, there were transactions related to purchase of building lots and buildings in large amount of cash (5 reports, 31.3%) and transactions related to customers who don't have visible economic purpose to buy or sell building lots and buildings that are object of transaction, considering the scale of transaction, location, and business form (4 reports, 25.0%).

C. Case

As to cases where real estate was misused for money laundering, there were cases where buildings were purchased by the use of criminal proceeds derived from drug smuggling and the buildings were abused to grow cannabis or produce synthetic drug in foreign countries. In this way, offenders buy real estate with criminal proceeds, and then use it as the location to produce new criminal proceeds.

In Japan, based on information obtained in the process of investigation, statement by suspects, etc., there are cases which are believed that criminal proceeds derived from prostitution or fraud were used to buy real estate under other party's name.

D. Assessment

Real estate has high value and it is easy to exchange to large cash. Furthermore, it is easy for offenders to transfer criminal proceeds by padding the price of real estate. From these aspects, real estate can be a convenient instrument for ML/TF.

Actually, there are some cases which are believed that criminal proceeds from prostitution or fraud were used to buy real estate, so real estate has the risk to be misused for ML/TF.

In addition, based on the factors including STRs and facts found out in investigation, where nature of transaction or type of customers include following factors and other applicable conditions, it is considered that real estate has higher risk to be misused for ML/TF.

- Transactions in large amount of cash
- Transactions suspected that they were conducted under fictitious name or other person's name

To mitigate the risk that real estate is misused for ML/TF, the Act on Prevention of Transfer of Criminal Proceeds requires building lots and buildings business operators to conduct CDD including verification at the time of transaction and to make STRs. In addition, competent administrative authorities provide guidance and supervision based on license system and the industry makes voluntary efforts.

(7) Precious Metals and Stones

A. Present Situation

Precious metals and stones have high value. They can be easily exchanged to cash anywhere in the world, they are small, so it is easy to carry with, and it is difficult to track distribution channel and location after transaction. Transaction related to precious metals and stones have high anonymity.

The Act on Prevention of Transfer of Criminal Proceeds requires dealers in precious metals and stones to conduct CDD including verification at the time of transaction and prepare and preserve verification records and transaction records when they make sales contracts of precious metals and stones which exceed 2 million yen in cash. The Act also requires to make STRs when received property is suspected to be criminal proceeds or customers are suspected that their activities could fall under concealment of criminal proceeds, based on the result of CDD including verification at the time of transaction or other circumstances.

Industrial associations also make efforts to promote AML/CFT measures. For example, they endeavor to raise awareness of dealers about AML/CFT by preparing manuals that explain obligations in related laws (the Act on Prevention of Transfer of Criminal Proceeds and the Secondhand Articles Dealer Act) and provide trainings.

B. STRs

There were 39 STRs by dealers in precious metals and stones from 2011 to 2013. As main reasons for reporting, there were unnatural transactions or transactions related to customers who show unnatural behavior or attitude based on the knowledge and experience of staff (29 reports, 74.4%), sales of a lot of precious metals stones, etc. by a same person in a short period (3 reports, 7.7%), and purchase in large amount of cash (3 reports, 7.7%).

C. Case

As to cases where precious metals and stones were misused for money laundering, there are cases diamond and gold were used for payment of drug smuggling in foreign countries. Precious metals and stones are easy to carry with and have high liquidity and anonymity, so they were misused for money laundering.

In Japan, there were cases where precious metals, etc. were purchased by cash derived from predicate offenses, such as violation of the Anti-Prostitution Act. In such transactions, money launderers have conducted transactions keeping higher anonymity by means where they gave false information on customer identification data pretending to be another person or providing falsified identification documents on sales contract.

[Case 24] Case of purchasing gold coins with stolen cash under a false name

(Concealment of criminal proceeds related to theft)

An unemployed man gave a false name to a dealer for precious metals and stones and disguised as another person when he bought gold coins and necklaces of about 3.14 million yen, using cash he stole. He was arrested for violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds).

(March 2012, Gifu Prefectural Police)

D. Assessment

Precious metals and stones have high value. They are distributed all over the world. It is easy to exchange to cash or carry with. In addition, it is difficult to track distribution channel and location after transaction with high anonymity. From these aspects, precious metals and stones can be a convenient instrument for ML/TF.

Actually, there are cases where offenders pretended to be another person and bought precious metals with cash derived from crimes. Precious metals and stones have risk to be misused for ML/TF.

In addition, based on the factors including STRs and cases misused for ML/TF, where nature of transaction or types of customers include the following factors and other applicable conditions, it is considered that precious metals and stones have higher risk to be misused for ML/TF.

- Transactions in a large amount of cash
- Transactions of frequent purchases resulting in a large amount, even if purchase amount at a time is small
- Transactions suspected that identification documents, etc. provided at the time of customer identification might be falsified
- Transactions suspected that customers sell precious metals etc. but ownership are suspicious
- Transactions related to customers who refuse to explain or provide complementary documents related to persons who truly attempt to purchase when dealers ask the customers to identify the persons because the customers are suspected to act for themselves
- Unnatural transactions or transactions related to customers who show unnatural behavior or attitude

To mitigate the risk that precious metals and stones are misused for ML/TF, the Act on Prevention of Transfer of Criminal Proceeds requires dealers to conduct CDD including verification at the time of transaction and to make STRs. The industry makes voluntary efforts.

(8) Postal Receiving Service

A. Present Situation

In postal receiving service business, service providers consent to use their own address or their office address as the place where customers receive mail, to receive the mail to the customer, and to hand it over to customers.

By the use of the service, customers can announce a place where they do not actually live as their address and receive mail. There are cases where postal receiving service providers are misused as delivery address of defrauded money etc. in specialized fraud etc.

The Act on Prevention of Transfer of Criminal Proceeds requires postal receiving service providers to conduct CDD including verification at the time of transaction and prepare and preserve verification records and transaction records when they make service contracts. The Act also requires to make STRs when received property is suspected to be criminal proceeds or customers are suspected that their activities could fall under concealment of criminal proceeds, based on the result of CDD including verification at the time of transaction or other circumstances.

B. STRs

There are 133 STRs by postal receiving service providers from 2011 to 2013. Main reasons for reporting include transactions related to customers who show unnatural behavior or attitude in the process of contract based on the knowledge and experience of staff (19 reports, 14.3%) and transactions suspected that customers make contract under fictitious name or other person's name (6 reports, 4.5%).

C. Case

As to cases where postal receiving services were misused for money laundering, there were cases where a service contract was made in the name of shell company then money derived from selling obscene DVDs was sent to postal receiving service providers in the form of ordinary money order, cases where a contract was made in fictitious name and defrauded money of false bill fraud was sent to a postal receiving service provider, and cases where an offender defrauded a victim of cash card etc. and sent them to a postal receiving service provider, with whom contract in fictitious name was made.

[Case 25] Case of making customers send ordinary money orders, which were criminal proceeds, to a postal receiving service provider

(Concealment of criminal proceeds related to distribution of obscene electromagnetic recording media)

Mail order business operators made customers send money derived from selling obscene DVDs in the form of 399 ordinary mail orders (totaling about 3.03 million yen) to a postal receiving service provider, with whom they made service contract in a shell company name. They were arrested for violation of the Act on Punishment of Organized Crimes (Concealment of criminal proceeds).

(October 2012, Osaka Prefectural Police).

D. Risk Assessment

Postal receiving service is misused to receive proceeds derived from crimes involving fraud or sales of illegal goods. If falsified customer identification data are provided to conclude service contract, criminals of ML/TF or ownership of criminal proceeds become unclear. From these aspects, postal receiving service can be a convenient instrument for ML/TF.

Actually, there are cases where offenders made contract with postal receiving service providers in fictitious name and made providers receive criminal proceeds for concealment. Postal receiving service has the risk to be misused for ML/TF.

In addition, based on the factors including STRs and cases misused for money laundering, where nature of transaction or type of customers include following factors and other applicable conditions, it is considered that postal receiving service has higher risk to be used for ML/TF.

- Transactions suspected that customers might make contract under a fictitious or another person's name
- Transactions suspected that customers might use the service to disguise the company's actual state
- Transactions in which a customer makes contract of postal receiving service using multiple companies' name
- Transactions in which a large amount of cash is frequently sent to a customer
- Transactions in which cash is sent to customers through registered mail for remittance of cash etc. from the name which seems to be a loan shark or shell company

To mitigate the risk that postal receiving service is misused for ML/TF, the Act on Prevention of Transfer of Criminal Proceeds requires providers to conduct CDD including verification at the time of transaction and to make STRs. Other than that, guidance and supervision, etc. by the competent administrative authorities are conducted.

(9) Legal/Accounting Professions

A. Present Situation

There are lawyers, judicial scriveners, and certified administrative procedures legal specialists who possess legal expertise as professions. There are certified public accountants and certified public tax accountants who possess accounting expertise as professions (hereinafter referred to as “legal/accounting professions”).

Lawyers provide legal services at the request of a client or other person concerned. A lawyer must be registered in the roll of attorneys kept at Japan Federation of Bar Associations (hereinafter referred to as “JFBA”) and must belong to a bar association that is established in jurisdiction of each district court. As of April 1, 2014, the number of registered members is 35,113, including regular members (lawyers, legal profession corporations) and foreign special members (registered foreign lawyers).

Judicial scriveners provide services related to registration on behalf of client, consult about registration, and engage in the legal representation in summary court, etc. A judicial scrivener must be registered in the judicial scrivener roster kept in Japan Federation of Shiho-Shoshi Lawyer's Associations. As of March 31, 2014, 21,394 judicial scriveners and 522 judicial scrivener corporations are registered.

Certified administrative procedures legal specialists prepare documents to be submitted to a public agency and documents relating to rights, duties or the certification of facts at the request of client. Other than that, certified administrative procedures legal specialists can carry out procedures as an agent to submit documents to a public agency, within the scope not restricted by other laws. A certified administrative procedures legal specialist must be registered in the certified administrative procedures legal specialists registry kept in Japan Federation of Certified Administrative Procedures Legal Specialists Associations. As of March 31, 2014, 44,057 certified administrative procedures legal specialists and 340 certified administrative procedures legal specialists corporations are registered.

Certified public accountants shall make it their practice to audit or attest financial documents. They may also make it their practice to compile financial documents, to examine or plan financial matters, or to be consulted on financial matters, using the title of certified public accountant. A certified public accountant must be registered on the certified public accountants roster or the registered foreign certified public accountants roster kept at the Japanese Institute of Certified Public Accountants. As of the end of February 2014, 26,249 certified public accountants are registered with the Japanese Institute of Certified Public Accountants and 215 audit firms have given a notification to the Financial Services Agency.

Certified public tax accountants represent clients for filing, application, request, report, statement under laws regarding tax payment to tax agencies and prepare tax forms and consult about tax. Other than that, as incidental business of mentioned above, they prepare financial forms, keep accounting books on client's behalf, and provide any services related to finance. A certified public tax accountant must be registered in certified public tax accountant roster kept in Japan Federation of Certified Public Tax Accountants' Associations. As of March 31, 2014, 74,501 certified public tax accountants and 2,748 tax accountant corporations are registered.

Legal/accounting professions possess expertise regarding law and accounting. They have good social credibility and are involved in various transactions.

However, for those who attempt money laundering, legal/accounting professions are useful because they have indispensable expertise in legal/accounting field to manage or dispose property according to the purpose. At the same time, they can make up legitimate appearance in transactions and asset management by the use of high social credibility.

FATF etc. points out that with effective implementation of regulations on banks for AML/CFT those who attempt ML/TF have changed the methods. Instead of ML/TF through banks, they receive professional advice from legal/accounting professions. They also make legal/accounting professions, who have high social credibility, engage in transactions.

The Act on Prevention of Transfer of Criminal Proceeds requires legal/accounting professions, excluding lawyers, to conduct CDD including verification of customer identification data and prepare and preserve verification records and transaction records with regard to specified transactions.

Regarding lawyers, measures equivalent to the measures mentioned above shall be stipulated in the rules of JFBA, in line with cases of judicial scriveners and other legal/accounting professions, under the Act on Prevention of Transfer of Criminal Proceeds. JFBA set rules which stipulate duty of lawyers, such as verification of customer identification data in case where customer is in specified business, preservation of verification records, and avoiding acceptance of request if there is any suspicion of being abused for criminal proceeds transfer.

Associations of each profession also make efforts to promote AML/CFT measures, for example, by developing regulations, preparing materials concerning duties, and providing training.

B. Case

As to cases where legal/accounting profession services were misused for money laundering in foreign countries, there were cases where offenders misused bank accounts of legal/accounting professions to preserve and transfer funds, cases where legal/accounting professions were abused for transfer of criminal proceeds that was disguised as legitimate operation of a company, and cases where legal/accounting professions are misused to buy real estate with criminal proceeds.

In Japan, there were cases where a loan shark asked a certified administrative procedures legal specialist to provide service for incorporation on behalf of them, set up a shell company, deceived financial institutions to open an account of legal person, and misused the accounts to receive criminal proceeds.

These cases show that those who attempt money laundering misuse services provided by legal/accounting professions to disguise concealment of criminal proceeds etc. as legitimate transactions.

[Case 26] Case of employing a certified administrative procedures legal specialist to take procedure of establishing a number of companies for the purpose of misusing accounts in the names of legal persons

(Concealment of criminal proceeds related to a large-scale violation of the Money Lending Business Act)

Men who operated money lending business without registration granted illegal high-interest loans to operators of small and medium-sized companies that were suffering funding problems and made some borrowers remit repayment money, totaling 370 million yen, to bank accounts in the names of legal persons which were actually not in business. They were arrested for the violation of the Act on Punishment of Organized Crimes (concealment of criminal proceeds).

A certified administrative procedures legal specialist, who made articles of association of the legal persons which were misused to open the accounts, did not comply with the obligation prescribed in the Act on Prevention of Transfer of Criminal Proceeds, such as customer identification. Rectification Order was issued to him by the Governor of Hiroshima Prefecture following the Opinion Statement made by the National Public Safety Commission / National Police Agency. At the same time, he was arrested for the violation of the Certified Administrative Procedures Legal Specialist Act because he did not keep the book prescribed in the Act.

(August 2012, Fukuoka Prefectural Police)

C. Assessment

Legal/accounting professions have high expertise about law and accounting, as well as high social credibility. Transactions through their services and related affairs can be practical means for ML/TF.

Actually, there are cases where affairs by legal/accounting professions are misused to disguise concealment of criminal proceeds as legitimate transaction. When legal/accounting professions conduct following transaction on behalf of clients, there is risk to be misused for ML/TF.

- Acts or procedures concerning buying and selling of building lots and buildings
Real estate has high value, it is easy to convert to a large amount of cash, and the value lasts long. Result of evaluation may differ widely depending on the utility value and usage of the land. This difficulty in estimating the appropriate value of the property can lead to misuse for ML/TF by padding the price. On top of that, because sales transactions of real estate require complicated procedures, such as boundary setting and registration of a transfer of ownership, the relevant expertise is indispensable. Offenders can conduct ML/TF easier by performing the complicated procedures with the help of legal/accounting professions.
- Acts or procedures concerning the establishment or merger of companies, etc
Acts or procedures concerning the establishment or merger of companies and other legal persons, cooperatives, and trusts can disguise the beneficial ownership or source of property and transfer a huge amount of asset under the name of business operation. They have the risk to be misused for ML/TF. On top of that, legal/accounting professions have expertise that is indispensable in organization, operation, and management of companies, etc. Offenders can conduct ML/TF easier by performing the procedures with the help of legal/accounting professions.
- Management or disposition of cash, deposit, securities and other assets
Management or disposition of assets has the characteristic that can be misused for ML/TF. In addition, management or disposition of assets can conceal the sources or transfers of assets. Offenders can conduct ML/TF easier by using social credibility, etc. of legal/accounting professions.

To mitigate the risk that affairs of legal/accounting professions are misused for ML/TF, various measures are taken, such as CDD including verification of customer identification data under the Act on Prevention of Transfer of Criminal Proceeds and measures that are equivalent to it, as well as voluntary efforts made by associations of professions.

(10) Trust

A. Present Situation

Trust is a system where a settlor transfers cash, land, or other property to a trustee by act of trust and the trustee manages and disposes the property for a beneficiary, according to the purpose of the trust which is set by the settlor.

In trust, asset is managed and disposed in various forms. Trustees make the best use of their expertise to manage and preserve assets. Trust is an effective way to raise funds for companies. With these characteristics, trust is widely used in schemes for managing financial assets, movable property, and real estate as a basic infrastructure of financial system in Japan.

Considering these characteristics of trust, the Trust Business Act was established to secure the fair transactions, including acceptance of trust, and license system was adopted in trust business (registration system for custodian type trust companies and self-settled trust companies) to protect settlors and beneficiaries, in which the trust business are subject to supervision by the competent authorities. In addition, when banks and other financial institutions operate trust business, approval by authorities is required under the Act on Engagement in Trust Business by a Financial Institution. As of the end of March 2014, 56 companies receive license or approval and engage in trust business.

In trust, settlors leave assets with trustees, but that's not all. Title of property, custodial right, and power of disposition are also transferred. Furthermore, when property is converted to trust beneficiary right, the attribution, number, and nature of property can be altered based on the purpose of trust. From these aspects, trust can be misused for ML/TF, which conceals the source of illegal proceeds.

The Act on Prevention of Transfer of Criminal Proceeds requires a trustee as a specified business operator to conduct CDD including verification at the transaction on creation of legal relationships with beneficiaries of trust by conclusion of contract of trust, act of trust, execution of the right to designate or change beneficiaries, assignment of a beneficial interest in a trust, and other acts, against not only settlors, but also beneficiaries as equivalent to customers, excluding some trusts.

Guidelines for Supervision by the Financial Services Agency also require trust companies and financial institutions that operate trust business to develop management system for appropriate implementation of CDD including verification at the time of transaction.

Based on the Trust Business Act and the Act on Engagement in Trust Business by a Financial Institution, in the case where management system for CDD including verification at the time of transaction has some problem, trust companies and financial institutions engaged in trust business are required to report to competent authorities, if necessary. Furthermore, if it is deemed that there are serious problems, an order for business improvement is issued.

Specified business operators make efforts to establish and enhance internal management system, too. For example, they set up a division in charge, develop internal regulations and manuals, provide periodic training, conduct internal audit, screen out transactions that are likely to have higher risk, and adopt enhanced monitoring for transactions with higher risk, etc. for anti-ML/TF measures.

In addition, trustees are required to submit record including beneficiaries' names to tax authorities under the tax law, excluding some trusts. The direct purpose of the law is not the prevention of money laundering, but based on the law, the authorities can identify beneficiaries of trusts to a certain extent.

B. Assessment

In trusts, title of asset, custodial right, and power of disposition are transferred from settlors to trustees and the type, number, and nature of asset can be altered. Trusts come into force on conclusion of contract and self-trust. For those who attempt ML/TF, it is possible to separate criminal proceeds from themselves and conceal the relationship with the proceeds. Trusts can be a convenient measure and misused for ML/TF.

To mitigate the risk that trusts can be misused for money laundering, regulations are applied to trust business, the authorities provide guidance and supervision, and business operators make voluntary efforts.

In addition, proceeds from trust asset or trading value of trust beneficiary right are transferred through bank accounts. Regarding such asset transfer transactions, the authorities set regulations on and provide supervision to deposit-taking institutions, and industry and business operators make voluntary efforts. Such multiple measures are effective to prevent and mitigate the risk of money laundering.

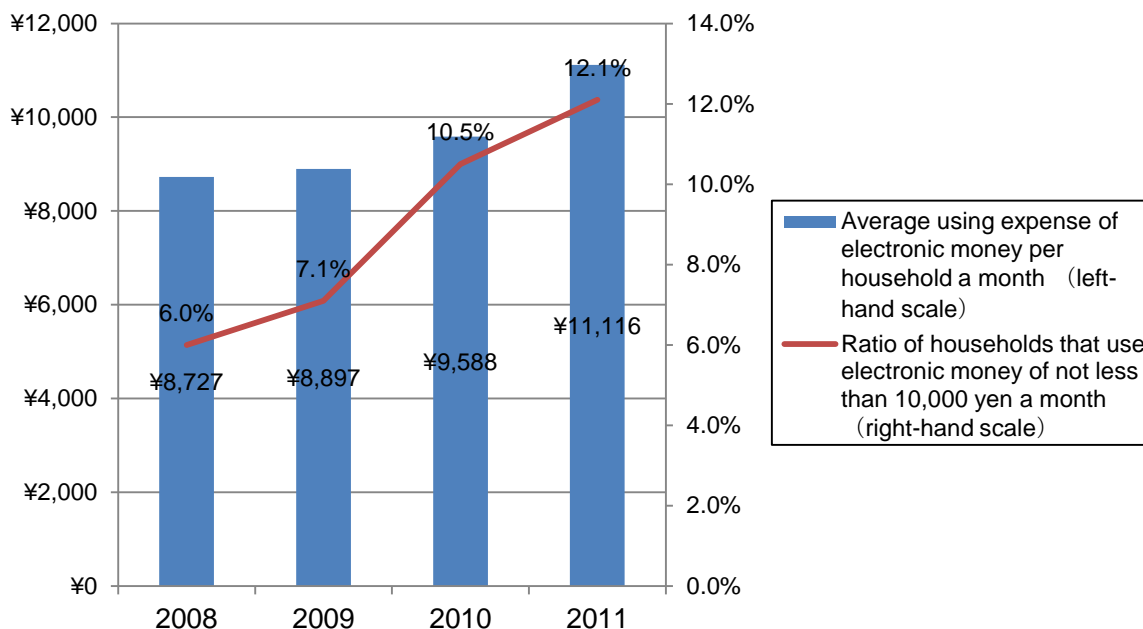
5. Risk Assessment of Transactions Utilizing New Technology

(1) Electronic Money

A. Present Situation

Seeing average amount of electronic money usage per household a month in Japan ^{*1}, the amount has been increasing every year since 2008. In 2011, the amount was 11,116 yen. Seeing the ratio of households that use electronic money not less than 10,000 yen a month, it doubled from 2008 to 2011, from 6.0% to 12.1%. In Japan, the use of electronic money has spread in the past few years.

Table 2-9 [Transition of Average Usage Amount of Electronic Money per Household a Month (Households of 2 and More Persons)]



Note: Data from the Ministry of Internal Affairs and Communications

Seeing so called “electronic money” in Japan, there are two types. One falls under “Prepaid Payment Instruments” issued under the Payment Services Act. The other is contactless credit card settlement. The former is certificates etc. or numbers, markings, or other signs (including instruments that the value is recorded in computer server etc.) that are issued in advance for value equivalent and used for purchase or leasing of goods or the receipt of provision of services from the issuer etc. Prepaid Payment Instruments is mainly used for specified services or at member shops for retail payment with small amount of value.

Prepaid Payment Instruments includes “own business type”, which is used for payment to issuer only and “third-party business type”, which is used for payment at member shops, too. The Payment Services Act requires issuers of Prepaid Payment Instruments for Third-Party Business to be registered with the competent authorities and issuers of Prepaid Payment Instruments for Own Business having unused balance exceeding designated threshold to notify to the competent authorities. The Act also sets many regulations, such as various reporting obligations, obligation of security deposits for issuance, management of member shops (measure to ensure that commodities are not against public order or morals), and prohibition of refund of Prepaid Payment Instruments in principle to ensure that appropriate service of Prepaid Payment Instruments should be implemented.

In Prepaid Payment Instruments, money value is changed to electromagnetic record and stored in IC chip or server on network. The instruments have excellent transportability. Furthermore, in many cases, customers don’t have to provide customer identification documents. In general, identification is completed through declaration of their name and birth date on issuance. Because of these

*1 See Statistics Topics No.62 "Usage situation of electronic money" (August 20, 2012, the Ministry of Internal Affairs and Communications). In the survey, electronic money means IC card type systems such as Edy, Suica, ICOCA, PASMO; cell phone type systems such as Osaifu-Keitai; prepaid type systems such as WebMoney, BitCash, QUO Card; and systems that money value equivalent to cash is transferred to card etc. Credit card, debit card, payment by post-paid system, and payment by prepaid card for specific products or services, such as bus card, are not included.

characteristics, Prepaid Payment Instruments have high anonymity. IC card and other intermediaries can be transferred without difficulty.

However, as refunds to holders of Prepaid Payment Instruments are prohibited under the Payment Services Act, except cases where issuers discontinue the business, they are not readily redeemable for cash in general. Furthermore, many issuers of Prepaid Payment Instruments voluntarily set the upper limit of charging and usage is limited to small value payment at specified member shops.

B. Case

In Japan, there was a case where an offender obtained electronic money by fraud and sold it to a trader in the name of another person. In another case, electronic money gained by computer fraud was used to buy cash vouchers then converted to cash. A person, who knew this crime scheme and received the cash, was arrested for violation of the Act on Punishment of Organized Crimes (receipt of criminal proceeds).

C. Assessment

Electronic money has a wide variety of forms and usages, but, in general, electronic money which falls under Prepaid Payment Instruments has excellent transportability and high anonymity. Actually, there are cases where electronic money is used in the process of money laundering.

In Japan, refunds of Prepaid Payment Instruments are prohibited under the Payment Services Act, in principle. If criminal proceeds are changed to electronic money which falls under Prepaid Payment Instruments, it is not readily redeemable for cash. In addition, many issuers set the upper limit of charging and service places are limited to some specific member shops etc.

Considering such circumstances, risk assessment of electronic money is difficult at this phase. It is necessary to keep monitoring the usages of electronic money in Japan.

(2) Bitcoin etc.

It is possible to use Bitcoin as consideration for transaction, but it does not have mandatory circulating power. Bitcoin is not a currency. There are no specified issuers of Bitcoin and it does not have the credibility endorsed by governments or central banks.

As Bitcoin is a quick and easy instrument to transfer and users can take advantage of high anonymity, it is pointed out that it may have risk to be misused for ML/TF all over the world.

So far, usage of Bitcoin in Japan is not clear, but related administrative authorities will cooperate to collect information, while paying attention to the trend of international rule, and examine countermeasures if necessary.

Section 3 Factors to Mitigate ML/TF Risks

1. Intention

While the factors that may enhance ML/TF risks are analyzed in section 2, Japan has some transactions, products, and services that may have low or very low risk to be misused for ML/TF.

2. Factors to Mitigate ML/TF Risks

In the light of type of customers or transactions, settlement method, legal system and other factors in transactions, products, and services, if transactions include the following factors, risk to be misused for ML/TF will be mitigated.

- (i) Transactions having clear source of funds
When characteristic or attribution of funds is clear, it is difficult to misuse for ML/TF.
- (ii) Transactions with the State or a local public entity
Transactions with the State or a local public entity are carried out based on laws and regulations. Process and nature of transactions have high transparency and source of funds or purpose of usage is clear, so it is difficult to misuse for ML/TF.
- (iii) Transactions in which customers etc. are limited by laws etc.
In some transactions, customers are limited based on laws and regulations. In such transactions, it is difficult for those who attempt ML/TF to participate in the transactions and to misuse them for ML/TF.
- (iv) Transactions in which their process is supervised by the State etc. based on laws, etc.
Transactions, in which notifications to or approvals by the State etc. are required upon conducting transactions, are supervised by the State etc. so it is difficult to misuse them for ML/TF.
- (v) Transactions that are difficult to disguise the actual status of legal persons etc.
In general, services that offer business address, facilities, means of communication and administrative address for legal persons etc. may have the risk to be misused for ML/TF by making up fictitious or exaggerated business credibility and scale. However, when services have difficulty in disguising the actual status of legal persons etc., it is difficult to misuse them for ML/TF (for example, telephone receiving service which indicates to a third party that it is a telephone receiving service).
- (vi) Transactions with low or no fund accumulation features
It is inefficient to invest on products or services with no or low cash accumulation features for ML/TF.
- (vii) Transactions that are below the threshold
Transactions in which the amount is below the threshold of regulations are not efficient for ML/TF. In transactions that set threshold consistent with FATF Recommendations, and the amount is below the threshold, it is said that risk of ML/TF is low.
Incidentally, if one transaction above the threshold is divided into several transactions and the amount of each divided transaction is below the threshold in order to avoid regulation (structuring), the risk of ML/TF becomes high.
- (viii) Transactions in which customer identification measure is secured by laws etc.
In transactions where customer identification is verified by laws and regulations and customers are authorized by the government according to laws and regulations which regulate the business, fund traceability is secured because identity of customers is proven.

3. Assessment of Transactions Prescribed in Article 4 of the Ordinance

Article 4 of Ordinance concerning Article 7 of Order for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds prescribes transactions that have low risk to be misused for the transfer of criminal proceeds.

It was examined whether transactions prescribed in Article 4 of Ordinance have above factors that mitigate ML/TF risks, and the following is the outcome of risk assessment for these transactions.

It is assessed that transactions with above factors (i) – (vii) have very low risk to be misused for ML/TF because these factors make it difficult or inefficient to carry out ML/TF. With regard to transactions with above factor (viii), it is assessed that they have low risk to be misused for ML/TF because traceability of funds is secured.

- (1) Specified Transactions in Money Trust** (Article 4, paragraph 1, item 1 of Ordinance)
 Each transaction prescribed in Article 4, paragraph 1, item 1 of Ordinance (A: customer-oriented money trust with financial instruments business ^{*1}, B and D: Product client classification management trust with financial instruments business ^{*2}, C : Client classification management trust with financial instruments business ^{*3}, E : Trust contract of security deposit for issuance with issuer of prepaid payment instruments ^{*4}, F : Trust of security deposits for providing funds transfer services with Funds Transfer Service Providers ^{*5}, G : Trust for preservation of deposit asset with futures commission merchant ^{*6}) falls under the factors to mitigate ML/TF risks; (i), (iii), (iv), and (viii). Therefore, they are deemed to have very low risk to be misused for ML/TF.
- (2) Conclusion, etc. of Insurance Contract** (Article 4, paragraph 1, item 2 of Ordinance)
 Each transaction prescribed in Article 4, paragraph 1, item 2 of Ordinance (A: Pension without return of accumulated premium, cancellation of insurance, B: Insurance contract that total repayment is under 80% of total premium) falls under the factor to mitigate ML/TF risks; (vi). Therefore, they are deemed to have very low risk to be misused for ML/TF.
- (3) Payment of Maturity Insurance Money etc.** (Article 4, paragraph 1, item 3 of Ordinance)
- A. Payment of Maturity Insurance Money etc. of Pensions, Insurance etc.**
 Pension or insurance without return of accumulated premium and payment of maturity insurance amount is under 80% of total premium prescribed in Article 4, paragraph 1, item 3, (a) of Ordinance fall under the factor to mitigate ML/TF risks; (vi). Therefore, they are deemed to have very low risk to be misused for ML/TF.
- B. Payments of Maturity Insurance Money etc. of Qualified Retirement Pension Contracts, Group Insurance Contracts, etc.**
 Payments for maturity insurance amount of qualified annuity contract or group insurance ^{*7} prescribed in Article 4, paragraph 1, item 3, (b) of Ordinance fall under the factors to mitigate ML/TF risks; (i), (iii), (iv), and (viii). Therefore, they are deemed to have very low risk to be misused for ML/TF.
- (4) Transactions carried out on Securities Market etc.** (Article 4, paragraph 1, item 4 of Ordinance)
 Transactions in stock exchanges ^{*8} prescribed in Article 4, paragraph 1, item 1 of Ordinance fall under the factors to mitigate ML/TF risks; (iii) and (viii). Therefore, they are deemed to have very low risk to be misused for ML/TF.

^{*1} Conclusion of a contract pertaining to a trust under Article 43-2, paragraph 2 of the Financial Instruments and Exchange Act (Act No. 25 of 1948) or establishment by the terms of trust pertaining to the trust prescribed in the same paragraph or by exercise of the right to designate a beneficiary prescribed in Article 89, paragraph 1 of the Trust Act (Act No. 108 of 2006) of a legal relationship with a beneficiary of such trust.

^{*2} Conclusion of a contract pertaining to a product client classification management trust prescribed in Article 142-5, paragraph 1 of the Cabinet Office Ordinance on Financial Instruments Services, etc. (Cabinet Office Ordinance No. 52 of 2007) or establishment by the terms of trust pertaining to a product client classification management trust prescribed in the same paragraph or by exercise of the right to designate a beneficiary prescribed in Article 89, paragraph 1 of the Trust Act of a legal relationship with a beneficiary of such trust.

^{*3} Conclusion of a contract pertaining to a client classification management trust prescribed in Article 143-2, paragraph 1 of the Cabinet Office Ordinance on Financial Instruments Services, etc. or establishment by the terms of trust pertaining to a client classification management trust prescribed in the same paragraph or by exercise of the right to designate a beneficiary prescribed in Article 89, paragraph 1 of the Trust Act of a legal relationship with a beneficiary of such trust.

^{*4} Conclusion of trust contract of security deposit for issuance prescribed in Article 16, paragraph 1 of the Payment Services Act or establishment by the terms of trust contract of security deposit for issuance prescribed in the same paragraph or by exercise of the right to designate a beneficiary prescribed in Article 89, paragraph 1 of the Trust Act of a legal relationship with a beneficiary of such trust contract of security deposit for issuance.

^{*5} Conclusion of trust contracts of security deposits of providing funds transfer services prescribed in Article 45, paragraph 1 of the Payment Services Act or establishment by the terms of trust pertaining to trust contracts of security deposits of providing funds transfer services prescribed in the same paragraph or by exercise of the right to designate a beneficiary prescribed in Article 89, paragraph 1 of the Trust Act of a legal relationship with a beneficiary of such trust contracts of security deposits of providing funds transfer services.

^{*6} Conclusion of a contract pertaining to a trust prescribed in Article 98, paragraph 1, item 1 and Article 98-3 paragraph 1, item 1 of Ordinance for Enforcement of the Commodity Derivatives Act (Ordinance of the Ministry of Agriculture, Forestry and Fisheries and the Ministry of Economy, Trade and Industry No. 3 of 2005) or establishment by the terms of trust pertaining to a trust prescribed in these provisions or by exercise of the right to designate a beneficiary prescribed in Article 89, paragraph 1 of the Trust Act of a legal relationship with a beneficiary of such trust.

^{*7} In group insurance, the amount that is deducted from the salary of employees is used for premium.

^{*8} Financial instruments exchange markets prescribed in Article 2, paragraph 17 of the Financial Instruments and Exchange Act or over-the-counter securities markets prescribed in Article 67, paragraph 2 of the same Act, or foreign markets (only in jurisdictions designated by the Financial Services Agency Commissioner) where sales and purchase of securities equivalent thereto or Foreign Market Transaction of Derivatives prescribed in Article 2, paragraph 23 of the same Act is carried out.

- (5) **Transactions of Government Bonds, etc. That Are Settled by an Account Transfer at the Bank of Japan** (Article 4, paragraph 1, item 5 of Ordinance)
Transactions of government bonds that are settled by an account transfer at the Bank of Japan prescribed in Article 4, paragraph 1, item 5 of Ordinance fall under the factors to mitigate ML/TF risks; (iii) and (viii). Therefore, they are deemed to have very low risk to be misused for ML/TF.
- (6) **Specified Transactions Concerning Loan of Money etc.** (Article 4, paragraph 1, item 6 of Ordinance)
- A. **Loans for Which Settlement Is Made by an Account Transfer at the Bank of Japan**
Loans for which settlement is made by an account transfer at the Bank of Japan prescribed in Article 4, paragraph 1, item 6 of Ordinance fall under the factors to mitigate ML/TF risks; (iii) and (viii). Therefore, they are deemed to have very low risk to be misused for ML/TF.
 - B. **Loans etc. Based on Pensions, Insurance etc. without Refunds of Accumulated Premium**
Loan etc. based on pensions, insurance etc. without refunds of accumulated premium prescribed in Article 4, paragraph 1, item 6 of Ordinance fall under the factors to mitigate ML/TF risks; (i), (iii), (iv) and (vi). Therefore, they are deemed to have very low risk to be misused for ML/TF.
 - C. **Individual Credit**
Individual credit, etc. prescribed in Article 4, paragraph 1, item 6, c of Ordinance^{*1} falls under the factor to mitigate ML/TF risks; (viii). Therefore, they are deemed to have very low risk to be misused for ML/TF.
- (7) **Specified Transactions in Cash Transactions etc.** (Article 4, paragraph 1, item 7 of Ordinance)
- A. **Transactions in Which a Public or Corporate Bearer Bond Is Provided as a Mortgage**
Transactions in which furnishing certificate or coupon of a public or corporate bearer bond that exceed 2 million yen prescribed in Article 4, paragraph 1, item 7, (a) of Ordinance fall under the factors to mitigate ML/TF risks; (i) and (viii). Therefore, they are deemed to have very low risk to be misused for ML/TF.
 - B. **Payment or Delivery of Money and Goods to the State or a Local Public Entity**
Payment or delivery of money and goods to the State or a local public entity prescribed in Article 4, paragraph 1, item 7, (b) of Ordinance fall under the factor to mitigate ML/TF risks; (viii). Therefore, they are deemed to have very low risk to be misused for ML/TF.
 - C. **Exchange Transactions etc. Carried out for Accepting or Refunding Deposits or Savings**
Exchange transaction for the receipt and payment of deposit/savings not more than 2 million yen prescribed in Article 4, paragraph 1, item 7, (c) of Ordinance fall under the factors to mitigate ML/TF risks; (vii) and (viii). Therefore, they are deemed to have very low risk to be misused for ML/TF.
 - D. **Receipt and Payment for Goods in Cash with Measures Equivalent to CDD Including Verification at the Time of Transaction**
In transactions of receipt and payment for goods in cash not more than 2 million yen prescribed in Article 4, paragraph 1, item 7, (d) of Ordinance, transactions in which payment receiver conducted CDD including verification at the time of transaction equivalent to cases of Specified Business Operators to payer fall under the factors to mitigate ML/TF risks; (vii) and (viii). Therefore, they are deemed to have very low risk to be misused for ML/TF.
- (8) **Opening a Special Account under the Act on Transfer of Bonds, Shares, etc.** (Article 4, paragraph 1, item 8 of Ordinance)

^{*1} Individual credit is a transaction form. When purchasers buy products from sellers, purchases don't use cards etc. Instead, an intermediary provides the amount equivalent to the product price to the seller according to the contract with purchasers and sellers and purchasers make payment of the price according to a certain fixed method to the intermediary later. Incidentally, tie-up loan is a kind of individual credit. There are tie-up loans that financial institutions and sellers cooperate to provide funds for sales contracts or service provision contract and tie-up loans that purchasers apply to individual credit operators, operators examine and consent, and financial institutions lend funds to the purchasers, on condition that the individual credit operators guarantee the loan.

Opening so-called special account ^{*1} under the Act on Transfer of Bonds, Shares, etc. prescribed in Article 4, paragraph 1, item 8 of Ordinance falls under the factors to mitigate ML/TF risks; (iii) and (viii). Therefore, they are deemed to have very low risk to be misused for ML/TF.

(9) Transactions through SWIFT (Article 4, paragraph 1, item 9 of Ordinance)

Transactions in which verification is made or settlement is directed through SWIFT ^{*2} prescribed in Article 4, paragraph 1, item 9 of Ordinance falls under the factors to mitigate ML/TF risks; (iii) and (viii). Therefore, they are deemed to have very low risk to be misused for ML/TF.

(10) Specified Transactions in Financial Leasing Contract (Article 4, paragraph 1, item 10 of Ordinance)

Financial leasing transactions in which a lessor receives rent under 100,000 yen per a transaction prescribed in Article 4, paragraph 1, item 10 of Ordinance fall under the factor to mitigate ML/TF risks; (vii). Therefore, they are deemed to have very low risk to be misused for ML/TF.

(11) Buying and Selling of Precious Metals and Stones, etc. in Which the Payment Is Made through Methods Other Than Cash (Article 4, paragraph 1, item 11 of Ordinance)

Transactions of precious metals and stones over 2 million yen and payment instruments are other than cash prescribed in Article 4, paragraph 1, item 11 of Ordinance fall under the factor to mitigate ML/TF risks; (viii). Therefore, they are deemed to have very low risk to be misused for ML/TF.

(12) Specified Contracts with Telephone Receiving Service Provider (Article 4, paragraph 1, item 12 of Ordinance)

Transactions prescribed in Article 4, paragraph 1, item 11 of Ordinance (A: a service contract of telephone receiving service in which indicating that being a telephone receiving service provider to a third party is included, B: contract of call center business etc. ^{*3}) fall under the factor to mitigate ML/TF risks; (v). Therefore, they are deemed to have very low risk to be misused for ML/TF.

(13) Transactions with the State etc. (Article 4, paragraph 1, item 13 of Ordinance)

A. Transactions That the State etc. Conducts Based on Statutory Authority

Transactions with the State or a local public entity prescribed in Article 4, paragraph 1, item 13, a of Ordinance fall under the factors to mitigate ML/TF risks; (i), (ii), (iii), (vi) and (viii). Therefore, they are deemed to have very low risk to be misused for ML/TF.

B. Transactions That a Bankruptcy Trustee, etc. Conducts Based on Statutory Authority

Transactions conducted by a bankruptcy trustee prescribed in Article 4, paragraph 1, item 13, b of Ordinance fall under the factors to mitigate ML/TF risks; (i), (iii), (vi) and (viii). Therefore, they are deemed to have very low risk to be misused for ML/TF.

(14) Specified Transactions in Agent Work etc. for Specified Mandated Acts by Judicial Scrivener etc. (Article 4, paragraph 2 of Ordinance)

A. Conclusion of a Voluntary Guardianship Contract

^{*1} An account which is opened in a trust bank by a company issuing shares when the company doesn't know the account of shareholders.

^{*2} Transactions which are carried out between a specified business operator and the Bank of Japan as well as a person equivalent thereto who has his/her head office or principal office in a foreign country (hereinafter referred to as a "foreign specified business operator" in this item) that use a specified communications method (which means an international communications method used between a Specified Business Operator, the Bank of Japan, and a foreign specified business operator, for which necessary measures are taken to identify the Specified business operator, the Bank of Japan, and the foreign specified business operator by the Commissioner of the Financial Services Agency, who communicate with each other through the said communications methods) as a customer, etc. and for which verification is made or settlement is directed through the said specified communications method. SWIFT (Society for Worldwide Interbank Financial Telecommunication) is designated by the matter of designating communications method (Public Notice of the Financial Services Agency No. 11 of 2008) prescribed in Article 4, paragraph 1, item 9 of Ordinance for Enforcement of the Act on Prevention of Transfer of Criminal Proceeds

^{*3} Businesses conducted by taking telephone calls (including telecommunications by facsimile devices) for receiving applications for contracts to provide explanations about or consultation on goods, rights, or services or to provide the goods, rights or services or for concluding such contracts. Concrete examples of call center business include counter for material request and inquiry, customer center, help desk, support center, consumer inquiry counter, maintenance center, and order reception center.

Conclusion of voluntary guardianship contract, which falls under conclusion of contracts for carrying out agent work etc. for specified mandated acts by judicial scrivener etc. prescribed in Article 4, paragraph 2, item 1 of Ordinance ^{*1} falls under the factors to mitigate ML/TF risks; (vi) and (viii). Therefore, they are deemed to have very low risk to be misused for ML/TF.

B. Transactions, etc. That the States etc. Conduct Based on Statutory Authority

Transactions conducted by the State etc. or a bankruptcy trustee based on statutory authority, which fall under conclusion of contracts for carrying out agent work etc. for specified mandated acts by judicial scrivener etc. prescribed in Article 4, paragraph 2, item 2 of Ordinance, fall under the factors to mitigate ML/TF risks; (i), (vi), (viii) and (ii) or (iii). Therefore, they are deemed to have very low risk to be misused for ML/T

^{*1} As to agent work, etc. for specified mandated acts pertaining to the management or disposition of property listed in item 3 of the middle column of the row of persons listed in Article 2, paragraph 2, item 43 in the attachment to the Act on Prevention of Transfer of Criminal Proceeds, cases where the value of the said property is two million yen or less are excepted.