CA ComplianceAsia

ComplianceAsia Japan Update – Amendments made to the Japan Payment Services Act (May 2021)

Introduction

Earlier this month, the Japan Financial Service Agency (FSA) announced that the amendments made to the Japan Payment Services Act (PSA) took effect from 1 May 2021. In this regulatory update we outline the key amendments made to the PSA and how this will impact non-banking institutions in Japan.

Amendments

Due to growing sophistication of non-banking payment and fund transfer services the FSA is of the view that it is an appropriate time to modernize the PSA.

Under the amended PSA, money transmitters will now be classified into one of the following three categories:

Type 1: Permits an expanded scope of services subject to new licensing regime;

Type 2: Equivalent to the current registration regime with permitted transfer amount remaining at JPY 1 million (USD 9,200); and

Type 3: Permits fund transfers up to JPY 50,000 (USD 460) with reduced compliance obligations.

Each of these new categories come with varying qualification levels and compliance obligations. To be approved as a Type 1 money transfer business will mean the firm is subject to higher level obligations, compared to the lower level Type 3 money transfer business.

The idea of introducing three specific categories is to expand the scope of fund transfer service businesses in Japan and to provide alternative options for potential new joiners to the industry.

Money Transmitters remain outside the scope of the Deposit Insurance Corporation, which is a form of prudential insurance afforded to banking institutions in Japan.

Enhanced requirements – Type 1 Licensees

The amendments have introduced a variety of new rules that should provide clarity on how to distinguish money transmitters from traditional banks.

Type 1 licensees are subject to a higher level of scrutiny and must:

- Set up collateral measures to secure its customers obligations which as a general principle, be calculated on a daily basis;
- Not keep client funds beyond the period necessary for fund transfer purposes (Holding Period). An example of this is a Type 1 licensee cannot accept client funds unless it has a specific transfer amount, transfer date and known recipient designated by the transferor; and
- Specify the exact period required to affect a transfer, based on respective country/regions, in its business plan submitted to the FSA.

ComplianceAsia Consulting KK. Level 2, Marunouchi Nijubashi Building, 3-2-2 Marunouchi, Chiyoda-ku, Tokyo 100-0005
Tel: (81) 3 6837 5483 www.complianceasia.com

The holding period restriction applicable to a Type 1 licensee does not apply to Type 2 or 3 license holders. To avoid the creation of a loophole under the holding period restrictions, Type 2 licensees must confirm that the funds they have received from a client have a specific remittance purpose. Without a specific purpose identified, the funds must be returned to the client immediately.

Conclusion

It appears that the FSA has made these amendments to the PSA to entice more non-banking businesses to enter the Japanese payment / fund transfer market and by doing this, the FSA is clearly hoping to see a rapid growth in this industry in the coming years.

About ComplianceAsia

ComplianceAsia is the longest established compliance consulting firm in Asia Pacific established in 2003 with offices in Hong Kong, Shanghai, Singapore, Tokyo and London. We have an unmatched track record of completing complex compliance consulting projects for financial firms in the APAC region.

With over 70 staff, including compliance experts with experience in dealing with the SFC, HKMA, MAS, CSRC, JFSA and Asian exchanges, we provide independent, unbiased advice on Asian financial industry legislation and regulations. Our international client base consists of asset managers, hedge funds, private equity funds, family offices, broker-dealers, insurers, wealth managers and investment banks.

Contact Us Today

JAPAN
Level 2
Marunouchi Nijubashi Building
3-2-2 Marunouchi Chiyoda-ku
Tokyo 100-0005

T: +81 3 6837 5483

HONG KONG SAR
Suite 1102
ChinaChem Tower
34-37 Connaught Road
Central

T: +852 2868 9070

SINGAPORE
137 Telok Ayer Street
#03-06
Singapore 068602

T: +65 6533 8834

MAINLAND CHINA
Room 132, Unit 1301-1308
13/F, Shanghai Tower
No.479 Lujiazui Ring Road
Pudong New Area Shanghai

T: +86 147 1431 1859

UNITED KINGDOM
1 St. Andrew's Hill
London
EC4V 5BY

T: +44 (0) 20 072360921
M: +44 (0) 7310 972435

Philippa Allen
CEO
E: philippa.allen@complianceasia.com

Alex Duperouzel
Managing Director
E: alex.duperouzel@complianceasia.com

Lachlan Chubb
Regional Head of Regulatory Advisory and Projects
E: Lachlan.chubb@complianceasia.com

Hanae Kuroda
Compliance Consultant
E: hanae.kuroda@complianceasia.com

www.complianceasia.com
ComplianceAsia