

FATF



Anti-money laundering and
counter-terrorist financing
measures

Japan

Follow-up Report &
Technical Compliance Re-Rating

September 2022

Follow-up report





The Financial Action Task Force (FATF) is an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. The FATF Recommendations are recognised as the global anti-money laundering (AML) and counter-terrorist financing (CTF) standard.

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The FATF Plenary adopted this report by written process in August 2022.

Citing reference:

FATF (2022), *Anti-money laundering and counter-terrorist financing measures – Japan*
1st Enhanced Follow-up Report, FATF, Paris
<http://www.fatf-gafi.org/publications/mutualevaluations/documents/fur-japan-2022.html>

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Japan's 1st Enhanced Follow-up Report

Introduction

The FATF Plenary adopted the mutual evaluation report (MER) of Japan in June 2021.¹ This FUR analyses Japan's progress in addressing the technical compliance deficiencies identified in its MER, relating to Recommendation 2. Re-ratings are given where sufficient progress has been made.

Overall, the expectation is that countries will have addressed most, if not all, technical compliance deficiencies by the end of the third year from the adoption of their MER. This report does not address what progress Japan has made to improve its effectiveness.

Findings of the MER

The MER rated Japan's technical compliance as follows:

Table 1. Technical compliance ratings, June 2021

R 1	R 2	R 3	R 4	R 5	R 6	R 7	R 8	R 9	R 10
LC	PC	LC	LC	PC	PC	PC	NC	C	LC
R 11	R 12	R 13	R 14	R 15	R 16	R 17	R 18	R 19	R 20
LC	PC	LC	LC	LC	LC	N/A	LC	LC	LC
R 21	R 22	R 23	R 24	R 25	R 26	R 27	R 28	R 29	R 30
C	PC	PC	PC	PC	LC	LC	PC	C	C
R 31	R 32	R 33	R 34	R 35	R 36	R 37	R 38	R 39	R 40
LC	LC	LC	LC	LC	LC	LC	LC	LC	LC

Note: There are four possible levels of technical compliance: compliant (C), largely compliant (LC), partially compliant (PC), and non-compliant (NC).

Source: Japan Mutual Evaluation Report, June 2021 www.fatf-gafi.org/media/fatf/documents/reports/mer4/Mutual-Evaluation-Report-Japan-2021.pdf

Mr. Michele Antonio Bozza Venturi, AML/CFT, Financial Advisor, Bank of Italy conducted the analysis of the re-rating.

Section 3 of this report summarises Japan's progress made in improving technical compliance. Section 4 sets out the conclusion and a table showing which Recommendations have been re-rated.

¹ www.fatf-gafi.org/publications/mutualevaluations/documents/mer-japan-2021.html

Overview of progress to improve technical compliance

This section summarises Japan's progress to improve its technical compliance by addressing some of the technical compliance deficiencies identified in the MER.

Progress to address technical compliance deficiencies identified in the MER

Japan has made progress to address the technical compliance deficiencies identified in the MER in relation to R.2. Because of this progress, Japan has been re-rated on this Recommendation.

Recommendation 2 (originally rated PC)

In its 4th round MER, Japan was rated PC with R.2, due to the absence of clear responsibility for the definition of AML/CFT policies informed by risks and regularly reviewed, and for the coordination of AML/CFT actions as well as for combating PF activities. In addition, despite the regular liaison meetings of data protection and privacy bodies that involve AML/CFT authorities, it is unclear to what extent AML/CFT is a focus of these meetings.

Since adoption of its MER, Japan established the Inter-ministerial Council for AML/CFT & CPF Policy and issued an AML/CFT/CPF action plan, which address several deficiencies related to its national co-operation and co-ordination framework.

The new National AML/CFT/CPF Action Plan, promoted by the recently established "Inter Ministerial Council for AML/CFT/CPF Policy", among other, specifically provide for renewal of the NRA (completed and adopted in 2021) and the development of a national AML/CFT/CPF policy informed by the risks identified in the NRA. The "Policy Development and Implementation Subcommittee" adopted the draft of a new national policy on 12 April 2022.² In addition, the Action Plan includes, among other, action items for improving Japan's CPF measures, such as strengthening the enforcement of asset freezing measures and legislative reforms.

With regard to CFT policy, the Action Plan includes the establishment of a task force to promote strengthening of TF investigation and prosecution, the enhancement of risk understanding on TF of obliged entities, and enhancing implementation of asset freezing measures. A policy to prevent NPOs from being exploited for terrorism financing is also included in the Action Plan.

The Inter-Ministerial Council is tasked with the planning and implementation of measures in accordance with national policies, and cooperating and coordinating the efforts for policy development and implementation.

The minor gap identified in the MER pertaining to data protection remains unaddressed, as it is unclear whether the mandate of the Council would fully satisfy the requirements of criterion 2.5.

Japan, has largely addressed most of the deficiencies identified in its MER, and minor deficiencies remain. On this basis, R.2 is re-rated largely compliant.

² On 19 May 2022, the Council issued a national "AML/CFT/CPF Strategic Policy" addressing the deficiency in relation to reviewing the Strategy regularly in response to the identified risks. However, the Strategic Policy was only adopted after the deadline for submitting the TC re-rating materials, the new Strategic Policy could not be taken into account as part of this report.

Conclusion

Overall, Japan has made progress in addressing most of the technical compliance deficiencies identified in its MER in relation to R. 2 and has been upgraded from PC to LC.

Considering progress made by Japan since the adoption of its MER, its technical compliance with the FATF Recommendations has been re-evaluated in the following manner:

Table 2. Technical compliance ratings

R 1	R 2	R 3	R 4	R 5	R 6	R 7	R 8	R 9	R 10
LC	LC	LC	LC	PC	PC	PC	NC	C	LC
R 11	R 12	R 13	R 14	R 15	R 16	R 17	R 18	R 19	R 20
LC	PC	LC	LC	LC	LC	N/A	LC	LC	LC
R 21	R 22	R 23	R 24	R 25	R 26	R 27	R 28	R 29	R 30
C	PC	PC	PC	PC	LC	LC	PC	C	C
R 31	R 32	R 33	R 34	R 35	R 36	R 37	R 38	R 39	R 40
LC	LC	LC	LC	LC	LC	LC	LC	LC	LC

Note: There are four possible levels of technical compliance: compliant (C), largely compliant (LC), partially compliant (PC), and non-compliant (NC).

Japan will remain in enhanced follow up and will continue to inform the FATF of progress achieved on improving the implementation of its AML/CFT measures.

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Anti-money laundering and counter-terrorist financing measures in Japan

Follow-up Report & Technical Compliance Re-Rating

As a result of Japan's progress in strengthening its measures to fight money laundering and terrorist financing since the assessment of the country's framework, the FATF has re-rated the country on Recommendation 2.

Follow-up report

