

## Executive Summary

1. This report summarises the anti-money laundering and counter-terrorist financing (AML/CFT) measures in place in Japan as at the date of the on-site visit (29 October - 15 November 2019). It analyses the level of compliance with the FATF 40 Recommendations and the level of effectiveness of Japan's AML/CFT system, and provides recommendations on how the system could be strengthened.

### Key Findings

- a) Japan has a good understanding of the main elements of money laundering (ML) and terrorism financing (TF) risks, mainly based on the large number of assessments conducted. There are, however, a number of areas where the national risk assessment (NRA) and other assessments could be further improved. The assessment and understanding of TF risk is well demonstrated by counter-terrorism experts, but this does not extend to other Japanese officials with a role in CFT. National policies and strategies have sought to address some of Japan's higher risks, including virtual asset risks. However, these lack targeted AML/CFT activities. There is generally good interagency co-operation amongst most law enforcement agencies (LEAs) on AML/CFT operational matters, but more coordination is needed for the development of AML/CFT policies.
- b) Some financial institutions (FIs) have a reasonable understanding of their ML/TF risks, including bigger banks (such as global systematically important banks, which are identified as higher risk institutions) and some MVTS. Other FIs have a limited understanding of their ML/TF risks. Where FIs have a limited understanding of ML/TF risks, this has a direct impact on the application of the risk-based approach (RBA). They do not have an adequate understanding of the recently introduced/modified AML/CFT obligations, and have no clear deadlines to comply with these new obligations. Designated non-financial businesses and professions (DNFBPs) have a low level of understanding of ML/TF risks and of their AML/CFT obligations. Virtual asset service providers (referred to as virtual currency exchange providers (VCEPs)) have general knowledge about the crime

risks associated with virtual assets (VA) activities and apply basic AML/CFT requirements. Suspicious transaction reporting (STR) is increasing, with a majority of reports from the financial sector and good reporting records from VCEPs, but overall STRs tend to refer to basic typologies and indicators. Not all DNFBPs are under an obligation to report, including some facing specific ML/TF risks.

- c) Understanding of risk by the different financial supervisors is uneven but is adequate for the most part. The Japanese Financial Services Agency (JFSA), the main financial sector regulator and supervisor, has taken relevant initiatives from 2018 that led to an improvement of its understanding of risks. The application of a risk-based approach (RBA) is still at an early stage, including for JFSA and the depth of its AML/CFT supervision is gradually improving. JFSA showed that once it engages in a dialogue with an FI, there is a tight follow-up process. Financial supervisors, including the JFSA, have not made use of their range of sanctions to take efficient and dissuasive actions against FIs. Japan has implemented a targeted and timely regulatory and supervisory response to the VCEP sector. The conduct of supervision based on ML/TF risks needs to be improved, noting that the JFSA has taken swift and robust actions to address VCEP deficiencies. DNFBP supervisors have a limited understanding of ML/TF risks and do not conduct AML/CFT supervision on a risk-basis.
- d) Japan has taken important steps towards implementing a system that allows competent authorities to obtain beneficial ownership (BO) information, with all FIs and DNFBPs obliged to maintain BO information. Nevertheless, accurate and up-to-date BO information is not yet consistently available on legal persons. There are challenges in relation to the transparency of domestic and foreign trusts, in particular trusts that are not created by or administered by trust companies. LEAs do not appear to have the necessary tools to establish the BO associated with more complex legal structures, and the risks associated with legal persons and arrangements are not well understood.
- e) Financial intelligence and related information are widely developed, accessed and regularly used to investigate ML, associated predicate offences and potential TF cases. This is based on Japanese LEAs' own intelligence development and a good range and quality of intelligence developed by the FIU (JAFIC). JAFIC adds value in complex financial investigations. LEAs tend to use financial intelligence to support targeting suspects and understanding the connections between them, but use for tracing assets requires further enhancement.

- f) ML investigations pursued by Japanese LEAs are in line with some of the key risk areas. LEAs demonstrated extensive experience with investigating less complex ML cases and some experience of conducting complex investigations in particular organised crime targets and ML cases involving foreign predicate offences. There are particular challenges in investigating larger scale ML cases of cross-border and domestic drug trafficking. All ML prosecutions that have been undertaken have secured a conviction. However, authorities are only prosecuting ML in line with the overall risk profile to some extent. Custodial sentence available for ML are at a lower level than those available for the predicate offences most regularly generating proceeds of crime in Japan. In practice, sanctions applied against natural persons convicted of ML are generally in the lower end of the range. Suspended sentences and a fine are often imposed.
- g) Restraint and confiscation are well demonstrated in relation to fraud cases, but not for some other high risk ML predicates. Japan pursues a generally successful approach to confiscating instruments of crime, with the exception of the large amounts of seized gold. Challenges arise with the confiscation of proceeds, instrumentalities and property of corresponding value from the overall level of suspended prosecutions (predicates and ML). Despite the cross-border cash smuggling risks, Japan has yet to demonstrate effective detection and confiscation of falsely/not declared cross-border movements of currency.
- h) Japan provides constructive and timely international cooperation. Domestic processes for responding to mutual legal assistance (MLA) requests operate well. Japan has provided assistance to other countries in confiscating property of equivalent value in Japan, although it has limited experience with assets being repatriated from other jurisdictions. Japan has demonstrated its ability to execute extradition requests from other jurisdictions, although the judicial framework for extradition should be reinforced. Japan routinely uses other forms of international cooperation in a timely manner, for exchanges of information relevant to AML/CFT functions including supervision, ML and predicate investigations.
- i) Japanese LEAs effectively investigate and disrupt potential TF, using information and financial intelligence from a wide range of sources. However, deficiencies in the TF Act, and a conservative approach to prosecution (see IO.7 above) constrain Japan's ability to prosecute potential TF and punish such conduct dissuasively. Japan has a limited understanding of at-risk non-profit organisations (NPOs), which has impeded competent authorities' ability to conduct targeted outreach to bolster NPOs' CFT preventive measures. This has placed Japanese NPOs at risk of being unwittingly involved in TF activity.
- j) Japan implements targeted financial sanctions (TFS) with delays, which have been significantly reduced as a result of recent administrative changes to the process used to implement designations. A number of other measures targeting the proliferation of Weapons of Massive Destruction (WMD) by DPRK, including comprehensive restrictions on trade and domestic designations, mitigate delays to some extent. This is particularly important due to Japan's context. Nevertheless, while screening obligations

require FIs, DNFBPs and VCEPs to implement TFS without delay, there are weaknesses in the implementation of TFS by FIs, VCEPs and DNFBPs. Authorities demonstrated good inter-agency cooperation and coordination on intelligence and law enforcement activities related to combating WMD, and effective and proactive outreach to some specific private sector entities at particular risk of unwittingly facilitating sanctions evasion.

## Risks and General Situation

2. The main ML risks identified by Japan relate to: the activities of Boryokudan members, associates and other related parties including drug trafficking, theft, loan sharking, gambling and prostitution; transactions involving foreigners, mainly through illegal remittances and transfers; and specialised fraud of different types, from money extortion through phone calls or internet channels to stealing of bank accounts. Regarding TF, the main risks identified relate to the activities of “Islamic Extremists” associated with the Islamic State of Iraq and the Levant (ISIL), Al Qaida and other groups, as well as foreign fighters. Consistent with Japan’s assessment, overall actual risk of TF appears to be relatively low.

## Overall Level of Compliance and Effectiveness

3. Japan made major amendments to its AML/CFT legislative framework in 2011 and 2014 with the introduction of the obligation to identify/verify BO, the extension of the scope of the customer due diligence (CDD) measures to ongoing CDD and transaction monitoring, enhanced CDD for transactions with foreign politically exposed persons (PEPs), and stricter verification regarding correspondent banking relationships involving higher risk countries. Financial supervisors adopted enforceable guidelines in 2018 and 2019 that include binding requirements for FIs and were important steps to upgrade the implementation of ML/TF risk mitigation measures by FIs. Japan introduced measures to license, regulate and supervise virtual currency exchange providers (VCEPs) in 2016.

4. A number of technical shortcomings are noted which present challenges for effectiveness. There are gaps with certain preventive measures applicable to DNFBPs, including the absence of STR obligations for a number of DNFBPs. There are also technical deficiencies affecting the dissuasiveness of sanctions for the ML offence, physical elements of the TF offence, the transparency of legal persons and legal arrangements, the TFS regime and the regime applicable to NPOs at risk of TF abuse.

5. Japan achieves a substantial level of effectiveness regarding the assessment of ML/TF risks and domestic coordination, collection and use of financial intelligence and other information, and international cooperation. Japan demonstrates a moderate level of effectiveness in areas related to the supervision of FIs and DNFBPs, the implementation of preventive measures by FIs and DNFBPs, the prevention of misuse of legal persons and arrangements, the confiscation of criminals’ proceeds of crime or property of equivalent value, ML and TF investigations and prosecutions, TF preventive measures and financial sanctions against terrorism and proliferation financing (PF).

***Assessment of risk, coordination and policy setting (Chapter 2; IO.1, R.1, 2, 33 & 34)***

6. Japan has a good understanding of the main elements of its ML and TF risks, mainly based on the large number of assessments of ML and TF risk conducted. There are, however, a number of areas where the NRA and other assessments could be further improved, including deepening the understanding of the broader risks across the Japanese economy, including cross-border risks; drawing on additional information from LEAs and independent sources, in addition to previous STR reporting; and increasing the focus on threats and vulnerabilities. Private sector institutions are aware of the results of the NRA and other risk assessments.

7. National policies and strategies have sought to address some of Japan's higher ML risks, including virtual asset risks. A number of other key risk areas are subject to robust national mitigation policies and activities (e.g. organised crime groups "Boryokudan", gold smuggling, drug trafficking), but these policies focus on criminals and on the smuggling of illegal goods and assets. They lack targeted AML activities. Nevertheless, key national authorities have taken steps to adjust some of their activities and priorities to be consistent with identified risks.

8. Noting the relatively low level of terrorism and TF risks that Japan faces, the assessment and understanding of TF risk is well demonstrated by counter-terrorism experts. However, this level of understanding does not extend to other Japanese officials with a role in CFT. CFT policies and activities are more focused on the risks, although there are weaknesses in relation to activities to prosecute TF, implementation of TFS, and support to the NPO sector to address TF risks.

9. There is generally good interagency co-operation and coordination amongst most LEAs on AML/CFT operational matters, but progress could be made to improve co-operation and coordination in the development of AML/CFT policies.

10. Authorities demonstrated good inter-agency cooperation and coordination on intelligence and law enforcement activities related to combating proliferation of WMD.

***Financial intelligence, ML investigations, prosecutions and confiscation (Chapter 3; IO.6, 7, 8; R.1, 3, 4, 29–32)***

11. LEAs widely develop and use financial intelligence and related information to investigate ML, associated predicate offences and potential TF cases, and asset tracing to some extent. JAFIC's analysis and dissemination of financial intelligence and ongoing support to LEAs' specialist financial investigation teams is a strong contribution to effectiveness. JAFIC information is used as first step source of financial intelligence in all LEAs and substantial number of cases are initiated and completed based on JAFIC data. JAFIC adds value in complex financial investigations. LEAs make positive use of financial intelligence to support targeting and understanding the connections between suspects. However, identifying and tracing of assets need to be further developed and prioritized, including to target all relevant crime types.

12. ML investigations pursued by Japanese LEAs are in line with some of the key risk areas identified in NRA and other risk assessments, with the exception of domestic and transnational drug trafficking. The vast majority of ML cases pursued are for self-laundering, rather than 3rd party laundering. LEAs demonstrated some experience of conducting investigations on foreign predicate offences supported by international cooperation. LEAs demonstrated extensive experience of investigating less complex ML cases. LEAs demonstrated strong investigative focus on targets, in particular organised crime targets. However, there does not appear to be sufficient focus on the flow of money, including on the profit taking levels involving complex fraud, large-scale foreign predicate offences and proceeds from drug-related crimes. The Public Prosecution Office's (PPO's) suspension of a majority of ML prosecutions due to them involving very minor offences reinforces this concern.

13. While all ML prosecutions that have been undertaken have secured a conviction, authorities are only prosecuting ML in line with the overall risk profile to some extent. The proportion of completed ML cases (30%) that go to prosecution does not appear to be wholly justified taking into account the risks, however it is in line with other economic offences. While low sentences are applied for ML, including suspended custodial sentences in a sizeable majority of cases, it is in line with the Japanese context and their judicial system.

14. Confiscation is well demonstrated in relation to fraud cases, but not for other high risk ML predicates. LEAs and prosecutors appear to place a reasonable priority on forfeiture of proceeds of crime and Japan has a generally comprehensive conviction-based confiscation system to recover assets. Some challenges arise with the confiscation of proceeds, instrumentalities and property of corresponding value from the overall level of suspended prosecutions (predicates and ML). Japan pursues a generally successful approach to confiscating instruments of crime, although not in relation to the large amounts of seized gold. Despite the cross border cash smuggling risks, Japan has yet to demonstrate that confiscation of falsely/not declared cross-border movements of currency and bearer-negotiable instruments is being effectively applied.

***Terrorist and proliferation financing (Chapter 4; 10.9, 10, 11; R. 1, 4, 5-8, 30, 31 & 39.)***

15. Japan aggressively investigates possible cases of TF, effectively using a range of tools to disrupt suspicious activity. Potential cases of cross-border TF are detected from a variety of sources, and the finances of domestic groups linked to or suspected of conducting terrorist activities in the past are closely monitored. Deficiencies in the TF Act limit investigations into TF activity not covered by the legislation, although competent authorities have been able to overcome this to some extent by making use of other criminal offences.

16. Although there is no comprehensive national counter-terrorism strategy that incorporates CFT, or standalone CFT strategy, local and national agencies coordinate and cooperate effectively. Limited outreach has taken place with FIs, VCEPs and DNFBPs, resulting in limitations in their understanding of TF risk.



17. Japan has not prosecuted a case of TF, with TF risks minor but present. Deficiencies in the TF Act restrict the possibility of prosecution, as funding of terrorists or terrorist organisations without a link to a specific attack is not an offence. In light of these deficiencies and Japan's conservative approach when prosecuting (see IO.7 on ML investigations and prosecutions), it is unlikely Japan could secure a conviction accompanied by dissuasive sanctions apart from circumstances where there is a clear case of directly funding a specific terrorist attack.

18. Japan implements TFS pursuant to UNSCR 1267/1373 through a combination of legislative instruments that prohibit payments with designated individuals or entities, in order to freeze assets in line with relevant UNSCRs. Designations have taken approximately one to three weeks to implement, with delays caused due to the steps required. Mechanisms for communicating designations before they come into effect in Japan limit this delay to a small extent, as well as obligations on FIs and VCEPs to conduct screening against sanctions lists. While the implementation of designations has been with significant delay, recent amendments to the process have reduced the delay for future designations to two to five days.

19. Despite the delays in implementation, uncertainty regarding the application of TFS when assets are held by third parties, and the complexity of the legislative framework, funds have been frozen in Japan under UNSCR 1267 in the past. While limited in amount and some time ago, this is not inconsistent with Japan's risk profile.

20. Japan has a limited understanding of the TF risks associated with the NPO sector, and has not applied any specific risk-based measures applicable to the sub-set of NPOs at risk of misuse for TF. A number of Japanese NPOs undertake important work in higher-risk regions, and an urgent increase in effective outreach and guidance by the Japanese authorities to the sector is needed. Comprehensive mechanisms to promote accountability, integrity and public confidence in the management of NPOs, including financial reporting, helps to mitigate the lack of CFT specific measures in Japan.

21. Similar to TFS for terrorism, Japan implements TFS for PF via a prohibition on payments with designated persons and entities, with delays. Delays have averaged five to ten days for recent designations under relevant UNSCRs, with new processes recently put in place to shorten delays to two to five days. Unlike the regime for TFS for TF, the regime for PF relies on legislation initially designed for the purposes of capital controls, and a gap exists should a Japanese resident be designated in future, with the framework unclear in its coverage in some areas including in its application to all types of funds or assets required to be subject to asset freezing measures.

22. Nevertheless, Japan has designated a significant number of UN-listed persons and entities domestically prior to UN designation, and a general prohibition on the transfer of funds or goods involving DPRK is in place that is robustly enforced. Mechanisms for communicating designations before they come into force in Japan are also in place, as well as obligations on FIs and VCEPs to conduct screening relating to sanctions, and Japan has frozen significant DPRK- and Iran-related financial assets, in line with Japan's risk and context. Targeted outreach by the authorities has supported the understanding of at-risk sectors, including trade finance, insurance, shipping and fisheries. Nevertheless, supervision by the Ministry of Finance and JFSA identified a large number of shortcomings related to the implementation of TFS by FIs (including regarding unilateral designations made by Japan in advance of UN designations), raising concerns about the extent of implementation, and the effectiveness of supervision.

### *Preventive measures (Chapter 5; IO.4; R.9–23)*

23. Some FIs have a reasonable understanding of their ML/TF risks, including bigger banks (such as global systematically important banks, which are identified as higher risk institutions) and some MVTs. Other FIs still have a limited understanding of their ML/TF risks. Although some FIs have started conducting their own risk assessment, others do not apply mitigation measures based on risks. They do not have an adequate understanding of the recently introduced or modified obligations, such as ongoing CDD, transaction monitoring and BO identification/verification. They have a general awareness of the need to enhance their AML/CFT frameworks and practices but have no clear deadlines to meet the new obligations.

24. The overall number of STRs filed per year is increasing. Most of them come from the financial sector, with one third from the bigger banks but refer to basic typologies and indicators, based on the FIU guidance.

25. VCEPs have been under an obligation to register and have been regulated and supervised for AML/CFT purposes since 2017. VCEPs have general knowledge about the crime risks associated with VC activities. Their understanding of TF risks is generally limited. VCEPs tend to apply basic AML/CFT requirements, but in general, they do not have specific policies to tailor mitigation measures to their risks or to apply enhanced due diligence (EDD) or specific CDD measures. Some VCEPs apply enhanced measures to assist them in identifying the customer's identity. VCEPs' STR reporting has significantly increased since 2017, which was mainly the result of a series of awareness-raising events and guidance provided jointly by the FIU and the Japan Virtual and Crypto Assets Exchange Association (JVCEA).

26. DNFBPs have a low level of understanding of the ML/TF risks, but are generally aware of risks connected to business relationships involving DPRK, and of the gold bullions smuggling risks due to the recent cases. DNFBPs apply basic AML/CFT preventive measures, mainly identifying their customers and verifying that they are not members/associates of a Boryokudan group. There is not a clear understanding of the BO concept by all DNFBPs. Screening against TFS lists or checking the list of higher risk countries is mainly triggered if customers depart from the usual profiles.

27. Not all DNFBPs are covered by STR reporting obligations. For covered DNFBP sectors, the level of reporting is low, including for sectors identified as facing specific ML/TF risks.

### *Supervision (Chapter 6; IO.3; R.14, R.26–28, 34, 35)*

28. Financial supervisors conduct standard “fit and proper” reviews for major shareholders and managers of FIs, but face challenges for screening beneficial owners (see transparency and beneficial ownership below). The detection of unregistered/unlicensed FIs is based on the information gathered from competent authorities and third parties. Competent authorities force detected unlicensed entities to shut down their business and publicize the measures in case detected entities do not comply, bringing reputational consequences to the managers.

29. Understanding of ML/TF risks by the different financial supervisors is uneven. The JFSA, which plays a leading role in AML/CFT supervision, has recently upgraded its AML/CFT risk understanding and supervision with the establishment of a dedicated AML/CFT team and the adoption of AML/CFT enforceable Guidelines (2018).



30. JFSA's AML/CFT risk based approach to supervision is still at an early stage but is gradually improving. An initial risk classification of FIs is in place, even though at this stage, the RBA is still mostly driven by inherent risks. The other supervisory authorities are at an earlier stage than JFSA in their implementation of a risk-based approach to supervision and understanding of risks.

31. AML/CFT supervisory focus is on bigger banks and VCEPs, which is appropriate from an RBA perspective. However, the number of AML/CFT targeted on-site inspections of FIs is limited. The supervisory focus on the three mega banks is based on a "through-the-year supervision" that encompasses permanent off-site monitoring and frequent meetings with FIs. For other FIs the supervisory approach is based on periodical submission of information and specific on-site/off-site activities when necessary, which is adequate.

32. JFSA showed that once it engages in a dialogue with a FI, there is a tight follow-up process. Similar efforts have not been taken for the whole financial sector, and supervisors have not imposed clear and prescriptive deadlines for FIs to promptly reach full compliance with their AML/CFT obligations.

33. Financial supervisors, including the JFSA, have not made use of their range of sanctions to take efficient and dissuasive actions against FIs, including banks.

34. JFSA, the VCEP supervisor, conducts fit and proper checks on directors and officers. Japan has successfully identified and taken action against unregistered service providers. JFSA's dedicated team for the supervision of VCEPs has a sophisticated understanding of the virtual currency (VC) ecosystem and of the VC services and products, including ML/TF risks to some extent.

35. Japan has provided a targeted and timely supervisory response to the VCEP sector. The conduct of supervision based on ML/TF risks needs to be improved. There is a substantial body of cases where sanctions have been imposed, including business suspension orders which show a more forceful approach to the one applied to FIs, as consumer protection was involved in most failures identified.

36. DNFBP supervisors conduct basic fit and proper checks when licensing/registering supervised entities. They have a basic understanding of the ML/TF risks of the sectors under their supervision, which is primarily based on the conclusions of the NRA. In general, they do not conduct AML/CFT supervision on a ML/TF risk-basis. Some DNFBP supervisors perform general compliance controls, which include an AML/CFT part. Some require supervised entities to provide an annual report on the application of AML/CFT controls. A very limited number of sanctions have been taken by DNFBP supervisors, mainly for failure to provide the annual report.

### *Transparency and beneficial ownership (Chapter 7; IO.5; R.24, 25)*

37. Japan has an understanding of the ways that legal persons may be misused to some extent, but this understanding lacks depth, with sufficient understanding of the vulnerabilities associated with different types of legal person not demonstrated. There is no understanding of the risks associated with the misuse of legal arrangements. There appears to be a lack of understanding to some degree amongst LEAs of the sources of basic information and BO information to assist with investigations.

38. Japan has taken several important steps to ensure BO information is available, placing requirements on FIs, VCEPs and most DNFBPs to collect and verify BO information, and for notaries to check the BO information for new companies. However, these measures have not yet been fully implemented, and deficiencies in supervision and the application of preventive measures by FIs, VCEPs and DNFBPs (see Supervision and Preventive measures above) mean that adequate and accurate BO information is not available in all cases. Very few cases exist where Japan has made use of BO information as part of financial investigations, with almost all cases involving a single legal person or arrangement, triggered as part of an investigation into a predicate offence. It is not clear whether this is due to limitations in Japan's understanding of the ways that legal persons are being misused, the lack of available BO information, or another reason such as a lack of training.

39. Basic information is available from companies themselves - including detailed information on shareholders, with some basic information available from the company register. However, it is not clear that the information held by companies can be obtained in a timely manner. Sanctions for failing to provide basic information are not applied consistently.

### *International cooperation (Chapter 8; IO.2; R.36–40)*

40. International cooperation in Japan is pursued in keeping with the risks and is generally timely and of good quality, both through formal and informal channels. Relevant authorities treat international cooperation as a priority. Japan has a generally comprehensive legal and institutional framework to support formal and informal international cooperation. The legal framework and arrangements are in place for MLA, including extradition, which enable AML/CFT related authorities to seek and provide formal cooperation with relevant foreign partners. In addition, other forms of international cooperation, including information exchange between FIU, LEAs and financial supervisors, are well supported and routinely used in Japan.

41. Some improvements are still needed, in particular regarding the extent to which formal MLA is used to investigate ML cases and to trace assets and regarding JFSA's international cooperation in AML/CFT supervisory matters. Equally, further efforts should be developed to enhance non-MLA forms of cooperation with international partners.

### **Priority Actions**

Japan should:

- a) Ensure that FIs, VASPs and DNFBPs understand their AML/CFT obligations and implement them in timely and effective manner, with priority on conducting enterprise risk assessments and the application of ongoing risk-based CDD, transaction monitoring, implementation of asset freezing measures and collecting and maintaining BO information.
- b) Increase the use of the ML offence to target more serious predicate offences, including through consideration of ML at an early stage of predicate investigations and prioritisation of third party ML across a wider range of offences, particularly the high risk crime types at the high-end profit taking levels.

- c) Explore and implement measures, between the National Police Agency (NPA), Ministry of Justice (MOJ) and PPO, to agree and enhance prioritization of prosecuting and investigating severe ML cases and improve prosecution rate of ML cases, including reconsidering PPO's application of discretion to prosecute and implement a policy to prioritise the prosecution of ML cases.
- d) Increase the statutory maximum sentence for ML to at least the same level as the serious predicate offences most regularly generating proceeds of crime in Japan.
- e) Give greater priority to pursuing asset tracing investigations, provisional measures and confiscation for priority risk areas and more consistently confiscate instruments of crime smuggled cash / BNI.
- f) Strengthen AML/CFT supervision on a risk-basis, including enhanced frequency and comprehensiveness of the combination of off-site monitoring and on-site inspections for assessing safeguards in place, ensuring that dissuasive penalties and remedial measures are applied to ensure a positive effect on compliance by FIs, DNFBP and VASPs.
- g) Adopt binding and enforceable means or amend the TF Act to ensure that the financing of an individual terrorist or terrorist organization in the absence of a link to a terrorist act is criminalized, and that the other technical deficiencies with Japan's criminalisation of TF identified in the Recommendation 5 analysis are rectified.
- h) Ensure that the obligations on all natural and legal persons to implement TFS are clear and in line with the FATF Standards, with further improvements made so that TFS can be implemented without delay.
- i) Ensure that there is a complete understanding of the NPOs at risk of abuse for TF, in particular those with operations in higher-risk regions, and undertake outreach, guidance and monitoring or supervision commensurate with the risks.
- j) Continue to improve the methodology of assessments of risk and promote a more comprehensive understanding of ML/TF risks, which should include a particular focus on cross-border risks and risks associated to legal persons and arrangements.
- k) Ensure that basic and beneficial ownership information on legal persons and arrangements becomes an established part of Japan's regulatory, supervisory and investigatory framework.

## Effectiveness & Technical Compliance Ratings

**Table 1. Effectiveness Ratings**

<b>IO.1 - Risk, policy and co-ordination</b>	<b>IO.2 - International co-operation</b>	<b>IO.3 - Supervision</b>	<b>IO.4 - Preventive measures</b>	<b>IO.5 - Legal persons and arrangements</b>	<b>IO.6 - Financial intelligence</b>
<b>Substantial</b>	<b>Substantial</b>	<b>Moderate</b>	<b>Moderate</b>	<b>Moderate</b>	<b>Substantial</b>
<b>IO.7 - ML investigation &amp; prosecution</b>	<b>IO.8 - Confiscation</b>	<b>IO.9 - TF investigation &amp; prosecution</b>	<b>IO.10 - TF preventive measures &amp; financial sanctions</b>	<b>IO.11 - PF financial sanctions</b>	
<b>Moderate</b>	<b>Moderate</b>	<b>Moderate</b>	<b>Moderate</b>	<b>Moderate</b>	

Note: Effectiveness ratings can be either a High – HE, Substantial – SE, Moderate – ME, or Low – LE, level of effectiveness.

**Table 2. Technical Compliance Ratings**

<b>R.1 - assessing risk &amp; applying risk-based approach</b>	<b>R.2 - national co-operation and co-ordination</b>	<b>R.3 - money laundering offence</b>	<b>R.4 - confiscation &amp; provisional measures</b>	<b>R.5 - terrorist financing offence</b>	<b>R.6 - targeted financial sanctions – terrorism &amp; terrorist financing</b>
<b>LC</b>	<b>PC</b>	<b>LC</b>	<b>LC</b>	<b>PC</b>	<b>PC</b>
<b>R.7 - targeted financial sanctions - proliferation</b>	<b>R.8 - non-profit organisations</b>	<b>R.9 - financial institution secrecy laws</b>	<b>R.10 - Customer due diligence</b>	<b>R.11 - Record keeping</b>	<b>R.12 - Politically exposed persons</b>
<b>PC</b>	<b>NC</b>	<b>C</b>	<b>LC</b>	<b>LC</b>	<b>PC</b>
<b>R.13 - Correspondent banking</b>	<b>R.14 - Money or value transfer services</b>	<b>R.15 - New technologies</b>	<b>R.16 - Wire transfers</b>	<b>R.17 - Reliance on third parties</b>	<b>R.18 - Internal controls and foreign branches and subsidiaries</b>
<b>LC</b>	<b>LC</b>	<b>LC</b>	<b>LC</b>	<b>N/A</b>	<b>LC</b>
<b>R.19 - Higher-risk countries</b>	<b>R.20 - Reporting of suspicious transactions</b>	<b>R.21 - Tipping-off and confidentiality</b>	<b>R.22 - DNFBPs: Customer due diligence</b>	<b>R.23 - DNFBPs: Other measures</b>	<b>R.24 - Transparency &amp; BO of legal persons</b>
<b>LC</b>	<b>LC</b>	<b>C</b>	<b>PC</b>	<b>PC</b>	<b>PC</b>
<b>R.25 - Transparency &amp; BO of legal arrangements</b>	<b>R.26 - Regulation and supervision of financial institutions</b>	<b>R.27 - Powers of supervision</b>	<b>R.28 - Regulation and supervision of DNFBPs</b>	<b>R.29 - Financial intelligence units</b>	<b>R.30 - Responsibilities of law enforcement and investigative authorities</b>
<b>PC</b>	<b>LC</b>	<b>LC</b>	<b>PC</b>	<b>C</b>	<b>C</b>
<b>R.31 - Powers of law enforcement and investigative authorities</b>	<b>R.32 - Cash couriers</b>	<b>R.33 - Statistics</b>	<b>R.34 - Guidance and feedback</b>	<b>R.35 - Sanctions</b>	<b>R.36 - International instruments</b>
<b>LC</b>	<b>LC</b>	<b>LC</b>	<b>LC</b>	<b>LC</b>	<b>LC</b>
<b>R.37 - Mutual legal assistance</b>	<b>R.38 - Mutual legal assistance: freezing and confiscation</b>	<b>R.39 - Extradition</b>	<b>R.40 - Other forms of international co-operation</b>		
<b>LC</b>	<b>LC</b>	<b>LC</b>	<b>LC</b>		

Note: Technical compliance ratings can be either a C – compliant, LC – largely compliant, PC – partially compliant or NC – non compliant.