Legal 500
Country Comparative Guides 2025

Japan
Banking & Finance

Contributor

CHUO SOGO LPC

Koji Kanazawa

Partner | kanazawa_k@clo.gr.jp

Katsuya Hongyo

Partner | hongyo_k@clo.gr.jp

Eriko Akiyama

Senior Associate | akiyama_e@clo.gr.jp

This country-specific Q&A provides an overview of banking & finance laws and regulations applicable in Japan.

For a full list of jurisdictional Q&As visit **legal500.com/guides**

Japan: Banking & Finance

1. What are the national authorities for banking regulation, supervision and resolution in your jurisdiction?

In Japan, the primary authorities responsible for banking regulation, supervision, and resolution is the Financial Services Agency (the "FSA"). The FSA is responsible for ensuring the stability of Japan's financial system, giving protection to depositors, policyholders and investors, and maintaining smooth finance through planning and policymaking, inspection and supervision of financial institutions, and monitoring of securities transactions. The Commissioner of the FSA delegates a part of the authority for inspection and supervision of financial institutions to the Directors-General of Local Finance Bureaus (local branches of the Ministry of Finance).

The Bank of Japan (the "BOJ") conducts examinations on banks' operations and assets (called "Nichigin Kousa"). Based on the findings of these examinations, the BOJ, when necessary, encourages banks to improve their risk management systems. This is based on the agreements entered into between the BOJ and banks to ensure the appropriate operation of banks' activities aimed at maintaining the stability of the financial system.

The Deposit Insurance Corporation of Japan (the "DICJ") handles bank resolution and deposit insurance, ensuring the stability of the financial system and depositors protection. The DICJ also conducts several types of inspections, such as inspections pursuant to the Deposit Insurance Act (the "DIA"), which examine payments of insurance premiums, and inspections pursuant to the Criminal Accounts Damage Recovery Act, which examine procedures for damage recovery for victms of the financial fraud.

2. Which type of activities trigger the requirement of a banking licence?

Pursuant to Article 4(1) and Article 2(2) of the Banking Act, a banking license is required for activities such as accepting deposits and lending funds, and conducting fund transfer transactions. Entities without a banking license are generally prohibited from conducting above activities, except for specific cases such as fund transfer businesses registered under the Payment Services Act (the "PSA").

3. Does your regulatory regime know different licenses for different banking services?

Japan operates a single licensing system for banking, meaning that both traditional banks with physical branches with staffs and digital banks without having physical branches are regulated under the same license. However, digital banks may be subject to different licensing grant conditions and supervisory frameworks.

Apart from banks, various financial services require different licenses:

- Other deposit-taking institutions, such as Shinkin banks (*Shinyo Kinko*) and credit cooperatives (*Shinyo Kumiai*), are regulated under different frameworks that focus on community-based financial services.
- Fund Transfer Businesses operated under the PSA may offer remittance services with certain limitations.
- Businesses engaged in money lending are required to obtain registration as a money lender under the Money Lending Business Act.

4. Does a banking license automatically permit certain other activities, e.g., broker dealer activities, payment services, issuance of e-money?

In addition to their core business operations, banks may engage in other businesses within the scope prescribed by the Banking Act. However, this does not automatically permit them to conduct such businesses, and, if other laws or regulations require separate licenses, banks are required to obtain such licenses individually.

Due to the policy for the separation of banking and securities businesses (*Ginshou Bunri*), banks are, in principle, not permitted to engage in broker-dealer activities, except where permitted under the Banking Act. However, they may conduct certain securities-related businesses if they obtain registration under the Financial Instruments and Exchange Act (the "FIEA").

Since fund transfer business, including issuance of certain e-money, and lending business are core banking operations, no separate license is required for banks to conduct these activities.

5. Is there a “sandbox” or “license light” for specific activities?

Japan has a regulatory sandbox system, but does not have a “light banking license" system. However, the Fund Transfer Business license under the PSA provides a lighter regulatory framework for money remittance services without requiring a full banking license. Especially, a Type 1 Funds Transfer Service Provider may conduct fund transfers without any limit on the transfer amount.

6. Are there specific restrictions with respect to the issuance or custody of crypto currencies, such as a regulatory or voluntary moratorium?

Under the PSA, “Crypto Assets" and electronically transferable monetary assets, such as stablecoins on permissionless blockchain (referred to as “Electronic Payment Instruments"), are defined separately. The issuance and redemption of Electronic Payment Instruments are generally classified as fund transfer transactions, which banks are permitted to conduct. However, when engaging in fund transfer transactions involving the issuance of Electronic Payment Instruments to customers, banks must take necessary measures to ensure that they do not issue Electronic Payment Instruments that could potentially hinder customer protection or the proper and secure execution of their operations, considering the characteristics of such instruments and the bank's operational framework. With this requirement, it is currently understood that, except when conducted as a trust business, the issuance of Electronic Payment Instruments by banks is considered practically difficult.

Banks are not permitted to custody Crypto Assets for the customers under the scope of business regulations set forth in the Banking Act.

7. Do crypto assets qualify as deposits and, if so, are they covered by deposit insurance and/or segregation of funds?

In Japan, crypto assets do not qualify as deposits under the Banking Act and are therefore not covered by deposit insurance. The DICJ protects traditional bank deposits, but it does not extend its coverage to crypto currencies or digital assets.

8. If crypto assets are held by the licensed entity, what are the related capital requirements (risk weights, etc.)?

For the time being, the temporary answer for regulating the soundness of holding of cryptoassets published by the FSA in October 2022 states cryptoassets are regarded similar to intangible fixed assets, and they are excluded from the numerator of the equity capital ratio calculations by adjusting items related to Common Equity Tier1 Capital (CET1) or items related to core capital.

However, the FSA is currently working on details for the adoption of the content of “The Prudential Treatment of Banks' Exposure to Crypto Assets" (“BCBS Report") published by the Basel Committee on Banking Supervision (“BCBS") in December 2022.

The BCBS defines two groups of cryptoassets in terms of regulatory requirements for the equity capital ratio of banks as follows:

- “Group 1" comprising cryptoassets with low risks of price fluctuations (e.g., tokenised financial assets, and stable coins); and
- “Group 2" comprising cryptoassets that do not belong to Group 1.

While Group 1 is treated in accordance with the existing frameworks under the Basel Accords (the “Basel Frameworks"), Group 2 is subject to a risk weight of 1,250% in the calculation of capital requirements.

9. What is the general application process for bank licenses and what is the average timing?

The application process for a banking license involves submitting a detailed business plan and financial projections to the FSA, which conducts a thorough review. Applicants must meet stringent capital adequacy, governance, and risk management requirements. The standard processing period is set at one month; however, this timeframe applies only after the formal application has been submitted to the government. In practice, a detailed review is typically conducted during prior consultations, and when including this preliminary process, the entire procedure can take a year or more.

10. Is mere cross-border activity permissible? If yes, what are the requirements?

When a foreign bank intends to engage in banking business in Japan, it must establish a branch in Japan and obtain a license as a foreign bank branch. A foreign

bank with a certain capital relationship with a Japanese bank (including a licensed foreign bank branch in Japan) may have its business conducted in Japan through agency or intermediation by such a bank, provided that the bank obtains approval from the Prime Minister.

11. What legal entities can operate as banks? What legal forms are generally used to operate as banks?

Under Article 4-2 of the Banking Act, banks in Japan must be established as joint-stock companies (*Kabushiki Kaisha*).

12. What are the organizational requirements for banks, including with respect to corporate governance?

A bank must have the following corporate organs:

i. a Board of Directors;
ii. a Board of Company Auditors, an Audit and Supervisory Committee, or a Nominating Committee, etc.; and
iii. a Financial Auditor.

13. Do any restrictions on remuneration policies apply?

The Comprehensive Supervisory Guidelines for Major Financial Institutions set forth the following key considerations regarding the design and implementation of compensation systems:

- The compensation committee or equivalent body is responsible for overseeing the compensation framework for officers and employees, ensuring its appropriate design and implementation. To fulfill this role, the committee is required to have an authority and structure that is independent from the business promotion divisions and exercise careful control to ensure that compensation levels do not adversely affect financial soundness or capital adequacy.
- The compensation system must be aligned with risk management. In particular, the compensation for risk management and compliance divisions must be determined independently, incorporating a mechanism that properly evaluates the achievement of risk management and compliance objectives. Additionally, the proportion of performance-linked compensation should be set at an appropriate level, taking into account job responsibilities, business operations, and the financial soundness of the banking group as a whole.

14. Has your jurisdiction implemented the Basel III framework with respect to regulatory capital? Are there any major deviations, e.g., with respect to certain categories of banks?

The FSA has developed domestic regulations based on the Basel Committee's publications: "Basel III: Finalising post-crisis reforms" (published in December 2017) and the final document on "Minimum Capital Requirements for Market Risk" (published in January 2019).

Specifically, on March 31, 2024, the FSA implemented Basel III requirements with respect to financial institutions subject to uniform international standards and financial institutions subject to domestic standards that adopt internal models, except for final designated parent companies; furthermore, on March 31, 2025, the FSA will implement Basel III requirements with respect to financial institutions subject to domestic standards that do not adopt internal models, and also to final designated parent companies. In Japan, uniform international standards are applied to banks with overseas business locations (such as overseas subsidiaries or branches), and domestic standards are applied to other banks. However, 39 institutions in 20 financial groups have voluntary begun adopting Basel III requirements beginning from the fiscal quarter that ended on March 31, 2023.

The requirements of Basel III in Japan include the following: from the viewpoint of strengthening the quality and quantity of core capital for enhancing the soundness of banks, banks subject to international standards are required to have not only a total equity capital ratio of 8% or more but also a Tier1 ratio of 6% or more, a Common Equity Tier1 ratio of 4.5% or more, and a capital buffer (to be implemented in phases from 2016). Banks subject to domestic standards, on the other hand, are required to have a total equity capital ratio (core capital/risk assets) of 4% or more. In the event that a bank falls below the applicable minimum required level, it will be subject to an early corrective action (e.g., submission of a business improvement plan or capital enhancement plan).

15. Are there any requirements with respect to the leverage ratio?

Japan introduced the leverage ratio requirement for banks subject to uniform international standards first in 2015 as a disclosure requirement (Pillar 3) and then in

2019 as the minimum capital requirement (Pillar 1). The leverage ratio requirement mandates that banks maintain a leverage ratio of 3% or more, where the ratio is calculated by dividing the capital (Tier 1 capital) by the amount of exposure (the sum of on-balance items and off-balance-sheet items). In the event that a bank falls below the applicable minimum required level, an early corrective action will be triggered.

On the other hand, in the fiscal quarter that ended on June 30, 2020, Japan introduced a time-limited measure to exclude "deposits with the BOJ" from the amount of exposure that serves as denominator in the calculation above, in furtherance of securing financial institutions' lending capacity amid the Covid-19 crisis. In addition, from April 2024, Japan turned to a modified framework with the minimum capital requirement raised to 3.15%, or 3.20% for the Global Systemically Important Banks ("G-SIBs"), while keeping "deposits with the BOJ" excluded from the amount of exposure.

Further, Japan introduced leverage buffer requirements for G-SIBs in the fiscal quarter that ended on March 31, 2023, with extra 0.5% to 0.75% for Japanese banks.

16. What liquidity requirements apply? Has your jurisdiction implemented the Basel III liquidity requirements, including regarding LCR and NSFR?

Japan has introduced liquidity requirements, including with the Liquidity Coverage Ratio (LCR) requirement and the Net Stable Funding Ratio (NSFR) requirement for banks subject to uniform international standards.

With regard to the LCR requirement, banks are required to hold "high-quality liquid assets ("HQLA": assets that can be liquidated without significant depreciation in times of financial stress and that do not have any obstacles to liquidation)" in order to respond to a 30-day stress outflow. The LCR requires banks to have a liquidity coverage ratio of at least 100%, where the ratio is calculated by dividing the amount of the HQLA by the amount of net fund outflows (fund outflow minus fund inflow) during a 30-day stress period.

The NSFR requirement calls on banks to maintain assets with a long average life or assets with low market liquidity to conduct stable funding over the medium to long term as a backbone of such assets. It also requires that the stable funding ratio, which is calculated by dividing the available stable funding amount (the sum of capital and funding from deposits and market) by the required stable funding amount (assets), be maintained at 100% or more.

17. Which different sources of funding exist in your jurisdiction for banks from the national bank or central bank?

Japan does not have national banks. Instead, the central bank, the BOJ, manages monetary policy and liquidity.

In Japan, banks obtain funding from the BOJ through multiple channels.

The BOJ conducts purchases and sales of securities, such as government bonds, to guide short-term interest rates in financial markets and adjust liquidity. These operations help regulate the overall supply of funds in the market and keep interest rates within the target range. Banks benefit from the funds supplied through open market operations, using them for various transactions and lending activities.

Additionally, the BOJ provides direct loans to banks facing short-term liquidity shortages, accepting collateral in exchange. This prevents temporary cash flow problems and helps maintain the stability of the financial system as a whole.

18. Do banks have to publish their financial statements? Is there interim reporting and, if so, in which intervals?

Yes. Many banks are required to publish their financial statements either as listed companies or as subsidiaries of listed companies.

Listed companies are required to disclose their financial results on a quarterly basis in accordance with listing rules.

Additionally, under the FIEA, they are required to submit and disclose annual securities reports, which include financial statements, as well as semi-annual reports, which also include financial statements, every six months.

Moreover, financial institutions such as banks, credit unions, and credit associations that are not listed companies are also required to make their disclosure report, including financial statements, available for public inspection every six months under the Banking Act and other related regulations.

19. Does consolidated supervision of a bank exist in your jurisdiction? If so, what are the

consequences?

Yes, Japan's Banking Act is based on the principle of consolidated supervision of banking groups. For example, regulations on business scope apply not only to individual banks but also to entire banking groups. Similarly, capital adequacy ratio requirements and other financial soundness regulations are imposed at both the individual bank level and the banking group level.

20. What reporting and/or approval requirements apply to the acquisition of shareholdings in, or control of, banks?

Under the Banking Act, there are restrictions on major shareholders and bank holding companies.

Holding companies that have banks as subsidiaries must obtain prior approval. Once approved, the holding company is classified as a "bank holding company" and becomes subject to restrictions on its business scope, as well as group-wide financial soundness regulations.

On the other hand, even if an entity is not a holding company, it must obtain prior approval if it intends to acquire 20% (or 15% in certain cases) or more of a bank's total voting rights. Shareholders who receive this approval are designated as "bank's major shareholders" and are subject to certain supervision by the FSA. However, bank's major shareholders are not subject to certain group-wide financial soundness regulations, such as capital adequacy ratio requirements, or group-wide business scope regulations.

21. Does your regulatory regime impose conditions for eligible owners of banks (e.g., with respect to major participations)?

Yes. Persons who acquired more than 5% of a bank's total voting rights must submit a notification on holding of voting rights in a bank to the director of the regional finance bureau within five business days.

Additionally, individuals or entities intending to become a bank's major shareholders must obtain prior approval. The approval criteria include:

- No risk of undermining the sound and appropriate operation of the bank, (i) considering factors such as the source of funds for the acquisition, the purpose of shareholding, and other relevant matters and (ii) based on the financial position and income/expenditure of the shareholder group; and
- The shareholder, based on their personal background and other relevant factors, must have a sufficient understanding of the public nature of the bank's business and possess adequate social credibility.

Furthermore, those intending to establish a bank holding company must obtain prior approval. The approval criteria include:

- A favorable expected income and expenditure outlook for the holding company group;
- An appropriate level of capital adequacy relative to the assets held by the holding company group; and
- The holding company must have the necessary knowledge and experience to manage and oversee the bank in a fair and accurate manner, based on its personnel structure, and must also have sufficient social credibility.

Additionally, bank holding companies must have the same corporate organs as banks.

22. Are there specific restrictions on foreign shareholdings in banks?

Yes. The regulations for those who become a shareholders of a bank apply equally regardless of whether the shareholder is domestic or foreign.

However, foreign investors must also comply with regulations on inward direct investment under the Foreign Exchange and Foreign Trade Act, which may include requirements such as post-acquisition reporting.

23. Is there a special regime for domestic and/or globally systemically important banks?

Yes. Regarding capital adequacy ratio regulations, banking groups classified as G-SIBs or D-SIBs are required to maintain a G-SIBs/D-SIBs buffer in addition to the capital conservation buffer by increasing their CET1 ratio.

As of the time of writing, the G-SIBs/D-SIBs buffer is set at:

- 5% for MUFG;
- 0% for Mizuho FG and SMFG; and
- 5% for other D-SIBs.

24. What are the sanctions the regulator(s) can order in the case of a violation of banking

regulations?

In certain cases where one violates the banking regulations, such as operating banking businesses without a license, criminal penalties are imposed.

For licensed banks, enforcement is generally carried out through administrative measures. Specifically, if a bank violates banking regulations, the FSA will investigate the facts and analyze the causes through orders to submit reports and on-site inspections. If a serious problem is identified, the FSA may issue orders to improve operations or orders to suspend operations. Additionally, the Prime Minister has the authority to revoke a bank's license. Failure to comply with these administrative measures, submitting false reports, or evading on-site inspections may also result in criminal penalties.

For less serious violations, such as failure to submit required notifications or violations of the prohibition on engaging in non-banking businesses, administrative penalties are imposed.

25. What is the resolution regime for banks?

The Japanese bank resolution system is structured into several frameworks.

a. "Payoff" method;
b. "Financial assistance method" or "asset and liability succession method";
c. "Recapitalization," "provision of funds exceeding the cost of payoffs," and "temporary nationalization" (used only when there is a risk of systemic instability); and
d. "Orderly resolution regime."

The orderly resolution framework has been expanded beyond banks to include securities companies, insurance companies, and financial holding companies. In the resolution for institutions facing insolvency or payment suspension risks, measures may be taken at the holding company level. Key assets and liabilities, including shares of major subsidiaries (e.g., banks), are transferred to a bridge financial institution established under the DICJ, allowing the core business of the subsidiaries to continue. Meanwhile, non-essential assets and liabilities remain with the original holding company, and losses are absorbed by shareholders through bankruptcy proceedings.

26. How are client's assets and cash deposits protected?

In Japan, deposits are protected under the Deposit Insurance System. This system operates by requiring financial institutions to pay deposit insurance premiums to the DICJ.

However, some types of deposits are not covered by deposit protection, such as: foreign currency deposits.

Even among protected deposits, the maximum coverage amount varies by deposit type:

- Settlement deposits are fully protected.
- Interest-bearing ordinary deposits and fixed-term deposits are protected up to 10 million yen, including accrued interest up to the date of bankruptcy.

27. Does your jurisdiction know a bail-in tool in bank resolution and which liabilities are covered? Does it apply in situations of a mere liquidity crisis (breach of LCR etc.)?

A characteristic feature of bail-in in processing bank failures in Japan is the provision that guidelines for issued corporate bonds include a provision to the effect that under certain conditions the principal will be reduced. This is referred to as "contractual bail-in."

When the Prime Minister makes a certain determination under the DIA, the provision will result in a reduction of the principal of Tier 1 or Tier 2 capital or its conversion into common shares. Additionally, the bank will undergo resolution with the burden falling on creditors and stockholders.

28. Is there a requirement for banks to hold gone concern capital ("TLAC")? Does the regime differentiate between different types of banks?

In Japan, the FSA issued an announcement ("Announcement") based on the Banking Act and the FIEA whereby the Total Loss-Absorbing Capacity (the "TLAC") requirements would apply to three megabanks (MUFG, SMFG, and MHFG), designated as the G-SIBs in Japan, and to Nomura Holdings, designated as one of the D-SIBs in Japan.

The Japanese TLAC requirements defines TLAC as the sum of Gone Concern-based loss-absorbing capacity and Going Concern Capital for CET1 and AT1, and requires that a TLAC holding rate be maintained at 18% relative to risk-weighted assets and at 6.75% or more relative to

leverage exposures (increased by 0.35% from 6.75% to 7.10% from April 1, 2024). In addition, in order to ensure sufficient loss absorbency on a Gone-Concern basis, at least one-third of these requirements is expected to be met by means of debt financing. Furthermore, to qualify for TLAC, the requirements of the Announcement must be satisfied, including structural subordination of the obligations, lack of securities or guarantees, long-term nature, minimum face value, and prohibition of step-up interest rates.

TLAC bonds of Japanese financial institutions are bail-in type financial instruments designed to absorb losses further after AT1 bonds and Tier2 bonds, and are issued as senior bonds of holding companies that are subject to TLAC requirements (i.e., corporate bonds that are repaid in preference to subordinated bonds in the event of bankruptcy).

29. Is there a special liability or responsibility regime for managers of a bank (e.g. a "senior managers regime")?

Japan has introduced the fit and proper principle for bank executives, directors and corporate auditors. For example, a executive director must have the knowledge and experience to carry out the management of the bank accurately, fairly and efficiently, and must also have sufficient social credibility.

30. In your view, what are the recent trends in bank regulation in your jurisdiction?

As mentioned above, to align Japanese regulations with international frameworks, including the Basel III framework, the government has strengthened financial soundness regulations, considering the impact of the COVID-19 pandemic.

At the same time, in 2021, there was a significant revision to the scope of business regulations for banking groups. These amendments are gradually allowing banking groups to provide non-financial services, taking into account the impact of negative interest rates.

31. What do you believe to be the biggest threat to the success of the financial sector in your jurisdiction?

The biggest threat is the risk of increased compliance costs.
In response to the increasing financial crimes, the authorities are working to tighten regulations aimed at combating financial crimes. In line with this trend and the Financial Action Task Force (FATF)'s 5th round of mutual evaluations, Japan is strengthening its AML/CFT/CPF regulations.

While stricter regulations and supervision are essential to prevent financial crime and ensure compliance with AML and sanctions regulations, they also impose higher compliance costs on the financial sector. These increasing costs make market entry more difficult for new players and can negatively impact users, for example, through higher fees.

Contributors

Koji Kanazawa
Partner
kanazawa_k@clo.gr.jp

Katsuya Hongyo
Partner
hongyo_k@clo.gr.jp

Eriko Akiyama
Senior Associate
akiyama_e@clo.gr.jp