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Financial Services Regulation 2025

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Japan: Trends and Developments

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Trends and Developments

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Introduction: Political Transition and Direction of Financial Regulation

As of late November 2025, Japan's financial regulatory landscape is characterised by continuity and gradual adjustment under the recently inaugurated administration of Prime Minister Sanae Takaichi, who assumed office in late October 2025. While the administration has placed economic security and sustainable growth among its leading strategic priorities, its approach to financial supervision and regulation has not yet been explicitly indicated. Nonetheless, the new administration's stance on financial regulation is expected to remain broadly aligned with the trajectory set out in the Financial Services Agency (FSA)'s Strategic Priorities: July 2025 – June 2026, issued in August 2025 (the "2025 Policy").

The 2025 Policy outlines the supervisory priorities for the 2025 programme year (during the above-mentioned time period) and highlights three principal pillars:

- enhancement of financial functions to support sustainable growth, including initiatives through the Policy Plan for Promoting Japan as a Leading Asset Management Center, regional finance reform, business-value-based lending and digital-finance innovation;
- strengthening of financial stability and public confidence, with a focus on enhancing supervisory and inspection functions; and
- evolution of the FSA's organisational structure, including a reorganisation into two supervisory divisions – one covering asset management and insurance, and the other banking and securities – to reinforce subject-matter specialisation and oversight consistency.

This direction reflects a policy intent to align financial regulation with broader macroeconomic objectives – particularly sustainable growth, digital transformation and regional revitalisation – while maintaining alignment with international regulatory developments.

Promoting Japan as a Centre for Asset Management

The Policy Plan for Promoting Japan as a Leading Asset Management Center, published in December 2023, remains central to Japan's strategy to encourage a shift from savings to investment and to position the financial sector as a contributor to economic growth. The Plan seeks to foster a virtuous cycle whereby increased household investment participation leads to improved capital allocation and enhanced corporate value.

The Plan is structured around four pillars:

- Reform of the asset-management industry, aimed at strengthening governance and international competitiveness. This includes the introduction of a product-governance principle, requiring firms to manage suitability, conflicts of interest and disclosure across the product lifecycle, as well as facilitating new market entry through financial and asset-management special zones.
- Reform of asset ownership, enhancing the role and fiduciary responsibilities of institutional investors.

- Diversification of growth-capital supply, encouraging capital flows into start-ups, green finance and overseas investments.
- Enhancement of stewardship activities, building on the Stewardship Code to support more substantive engagement between investors and investee companies

Taken together, these measures seek to develop Tokyo as a competitive asset management hub, supported by pension reforms and an expanded Nippon Individual Savings Account (NISA) scheme. (The NISA is Japan's tax-advantaged investment scheme for individual investors, under which gains on eligible financial instruments may be exempt from capital gains and dividend taxation within specified annual contribution limits.) The introduction of the product-governance principle in particular represents a shift towards more customer-oriented business models, in line with international practice.

Enhancing Regional Financial Capabilities

Japan's regional economies continue to face challenges stemming from demographic trends, including population decline and ageing. In response, the FSA has prioritised initiatives to strengthen regional finance. "The Regional Financial Power Enhancement Plan" is expected to be finalised by the end of 2025, with measures aimed at improving the sustainability of local financial institutions.

As of the date of this publication (late November 2025), the relevant governmental working group is considering proposals for the introduction of specific measures, including the following:

- Enhancing corporate-support functions within regional financial institutions, covering business succession, M&A facilitation, start-up financing, capital investment and digital transformation (DX).
- Promoting collaboration and shared infrastructure in areas such as AML/CFT compliance, cybersecurity and system development, recognising the cost efficiencies and risk-mitigation benefits of shared platforms.
- Utilising capital and subsidy mechanisms, including possible expansion of schemes under the Act on Special Measures for Strengthening Financial Functions (Act No 128 of 2004, as amended) and subsidies supporting digital and operational investment.
- Incorporating non-financial indicators – such as contribution to regional economic activity – into supervisory evaluation.

This initiative reflects a broader policy goal: to ensure that regional financial institutions evolve from traditional credit providers into active contributors to local economic ecosystems, supporting sustainability and innovation beyond conventional lending.

Digital Finance and Reform of the Payment-Services Framework

Japan continues to refine its regulatory framework for digital finance, particularly regarding payment services, crypto-assets, stablecoins and tokenised securities, in alignment with global regulatory trends such as the Financial Stability Board (FSB) recommendations and the EU Markets in Crypto-Assets Regulation (MiCA).

Japan's regulatory framework for digital assets has been progressively refined through a series of legislative amendments. Notably, the 2016 amendments to the Payment Services Act (Act No 59 of 2009, as amended) (PSA) introduced a regulatory framework for virtual currencies (later renamed as "crypto-assets"). The 2019 amendments to the Financial Instruments and Exchange Act (Act No 25 of 1948, as amended) (FIEA) developed a regulatory framework prescribing the relevant disclosure requirements and business regulations applicable to tokenised securities.

Subsequently, the 2022 amendments to the PSA, and other statutes, further refined the treatment of digital assets by creating new regulatory frameworks for stablecoins and digital money (such as tokenised deposits), including a new classification of "Electronic Payment Instruments" to capture stablecoins refundable or denominated in fiat currency. These amendments also introduced a layered licensing and oversight structure for issuers, intermediaries and custodians involved in stablecoin arrangements, as part of Japan's broader effort to ensure financial stability and user protection while enabling innovation. As such, the above-mentioned reforms delineated the regulatory perimeter for crypto-assets, stablecoins and security tokens, providing increased legal certainty and supervisory consistency across different types of digital financial product. Currently, both financial institutions and technology companies have begun to develop related infrastructure.

While crypto-assets have historically been regulated under the PSA as payment instruments, in light of their increasing role as market-traded and investment assets, discussions have emerged regarding the need for enhanced regulation. As many of the regulatory challenges surrounding crypto-assets are closely aligned with the FIEA's traditional framework for disclosure, trading rules, and investor protection, discussions are now underway on introducing regulatory frameworks under the FIEA for crypto-assets – effectively treating them as "investment products" rather than mere payment instruments.

Stablecoins, by contrast, are expected to remain regulated primarily under the PSA.

Under The FSA's 2025 Policy, a new integrated supervisory guideline will consolidate oversight of AML/CFT, cybersecurity and user protection. These reforms pursue dual goals: enhancing user convenience in digital financial services on the one hand while ensuring financial stability and resilience on the other.

AI, Data and Cyber Governance

In response to the rapid advances being made in artificial intelligence, the FSA has turned its attention to AI governance, data management and cybersecurity. In March 2025, it published the AI Discussion Paper (Version 1.0): Preliminary Considerations for the Sound Utilisation of AI in the Financial Sector. The paper emphasises accountability, verifiability and fairness as guiding principles, and highlights the need to integrate AI risk management into the existing three-lines-of-defence model.

Key priorities include model-risk control, assurance of data quality, and the development of specialised expertise within financial institutions. The discussion paper suggests that AI governance frameworks should enable explainability in automated decision-making and establish internal audit functions for algorithmic models.

In parallel, the FSA has refined its Guidelines on the Protection of Personal Information in the Financial Sector, clarifying requirements regarding breach-notification and the handling of pseudonymised data. The protection of training datasets for AI applications has emerged as a regulatory priority. The Guidelines on Cybersecurity in the Financial Sector, updated in October 2024, require enhanced risk-management for outsourcing and cloud computing, as well as improved incident-reporting and information-sharing protocols.

These efforts are broadly aligned with the EU Digital Operational Resilience Act (DORA) and demonstrate Japan's commitment to building an internationally harmonised framework for digital resilience supervision. The overarching objective is to ensure that technological innovation strengthens, rather than undermines, the operational integrity of Japan's financial system.

Sustainability and Non-Financial Disclosure

Sustainability-related disclosure requirements continue to expand. From FY2025, the Sustainability Standards Board of Japan (SSBJ) will introduce standards aligned with the International Sustainability Standards Board's IFRS S1 and S2, requiring listed companies to disclose sustainability-related financial information. The FSA views such disclosures as integral to risk management and capital allocation.

Financial institutions are progressing towards integrated management of climate-related risks, including through scenario analysis and stress testing. In response to concerns regarding the reliability of ESG ratings, the government is considering oversight arrangements for external assurance and rating providers.

AML/CFT

Anti-money-laundering and counter-terrorist-financing (AML/CFT) regulation has advanced with the 2024 amendments to the Act on Prevention of Transfer of Criminal Proceeds (Act No 22 of 2007, as amended), which fully implemented the travel rule for crypto-assets exchange service providers and electronic payment instruments service providers, mandating the collection, retention and sharing of sender and recipient information. This reform completes Japan's alignment with Financial Action Task Force (FATF) Recommendations 15 and 16.

In preparation for the FATF Fifth Round Mutual Evaluation, which has already commenced (an on-site evaluation in Japan is possibly anticipated to be held in around August 2028), the FSA has intensified supervision of financial institutions' compliance frameworks, focusing on customer due diligence, sanctions screening and suspicious-transaction reporting. Emphasis is also being placed on ensuring that new entrants such as fintechs and electronic-payment intermediaries develop proportionate AML/CFT systems.

Japan's approach combines rule-based obligations with risk-based expectations, reflecting FATF guidance and aiming to balance innovation with financial integrity. The integration of AML/CFT oversight into digital-finance supervision will likely become a defining feature of Japan's regulatory model in the coming years.

Outlook: Deepening International and Policy Alignment

Japan's financial regulation is entering a period of consolidation and strategic alignment with global standards. Implementation of the final Basel III reforms, enhancement of climate-risk management, and co-operation with the Financial Stability Board, the International Organization of Securities Commissions, and other international bodies remain top priorities. In insurance, the introduction of the Insurance Capital Standard (ICS) and convergence with Solvency II are being advanced in co-ordination with overseas regulators.

The FSA continues to promote a functional and risk-based supervisory approach, seeking to align financial oversight with broader policy objectives such as economic revitalisation, sustainability and digital transformation. This direction recognises that the financial sector must serve as both a stabilising and enabling force – maintaining systemic resilience while mobilising capital to address structural challenges.

Looking ahead, Japan's regulatory framework is expected to evolve around two central themes: international harmonisation and domestic policy coherence. Regional finance, digital finance and sustainability will remain focal points. In particular, the integration of prudential, conduct and market-development perspectives within the FSA's organisational structure marks a step towards more agile and forward-looking supervision.

With these developments, Tokyo is positioned to maintain its role as a leading financial hub in Asia, combining regulatory predictability with support for responsible innovation and sustainable growth.

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