

PANORAMIC

**CRYPTOASSETS &
BLOCKCHAIN**

Japan



LEXOLOGY

Cryptoassets & Blockchain

Contributing Editors

Richard B Levin, Kevin Tran and Robert Wenner

Nelson Mullins Riley & Scarborough LLP

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Contributors

Japan

[Nishimura & Asahi \(Gaikokuho Kyodo Jigyo\)](#)



Akihiro Shiba

a.shiba@nishimura.com

Yuji Okada

yu.okada@nishimura.com

GENERAL LEGAL AND REGULATORY FRAMEWORK

Legal framework**What legal framework governs cryptoassets? Is there specific legislation governing cryptoassets and businesses transacting with cryptoassets?**

Under Japanese law, cryptocurrencies generally are, and some utility tokens may be, categorised as 'cryptoassets', as defined in [the Payment Services Act](#) (the PSA). A cryptoasset exchange or custodian is required to be registered as a cryptoasset exchange service provider (CAESP) and regulated thereunder, except for cryptoasset custodians regulated under other statutes (such as banks engaged in trust business and trust companies).

On the other hand, stablecoins denominated or redeemable in fiat currency are categorised as 'electronic payment instruments' (EPIs) under the PSA, and an EPI exchange or custodian is required to be registered as an 'electronic payment instruments service provider' (EPISP) and regulated thereunder, subject to certain exceptions. The business of issuing and redeeming EPIs can be conducted by certain regulated financial institutions.

In addition, [the Financial Instruments Exchange Act](#) (the FIEA) provides for, in its disclosure requirements and business regulations, with regard to 'securities' as defined therein, special rules for tokenised securities (or security tokens). The FIEA also categorises cryptoasset or EPI-based derivatives as 'derivatives' as defined therein and regulates the relevant businesses. Therefore, for example, a broker, dealer, underwriter or distributor of tokenised securities or a broker or dealer of cryptoasset or EPI-based derivatives is required to be registered as a financial instruments business operator (FIBO) or, if it falls under certain categories of financial institutions (such as banks or other deposit institutions and insurance companies), a registered financial institution (RFI) and is regulated under the FIEA; however, banks, other deposit institutions and insurance companies are prohibited from engaging in cryptoasset-based derivatives under other statutes. Therefore, in our understanding, there is no RFI that deals with cryptoasset-based derivatives.

Further, under the FIEA, all persons are prohibited from market abuse involving any cryptoasset or security.

In addition, financial institutions, such as CAESPs, EPISPs, banks, trust companies, FIBOs, and RFIs, are subject to the AML/CFT (anti-money laundering and countering financing of terrorism) requirements under [the Act on Prevention of Transfer of Criminal Proceeds](#) (the APTCP), as well as sanction-related requirements under [the Foreign Exchange and Foreign Trading Act](#) (the FEFTA), both of which provide for special rules on cryptoassets and EPIs. All persons are subject to prohibition from certain transactions involving cryptoassets, EPIs, or securities under sanction measures implemented under the FEFTA or [the Act on Special Measures Concerning Asset Freezing, etc. Conducted by Japan Taking into Consideration United Nations Security Council Resolution 1267, etc.](#) (the Asset-Freezing Act).

On the other hand, there is no special legislation to govern the private law aspects of cryptoassets, EPIs, tokenised securities or any other on-chain assets.

Law stated - 25 11 2024

Government policy

How would you describe the government's general approach to the regulation of cryptoassets in your jurisdiction?

The Japanese government, especially the Financial Services Agency (FSA), has rapidly established and developed regulatory frameworks for cryptoassets (as defined in the PSA), EPIs, and tokenised securities (as regulated under the FIEA).

With regard to cryptoassets, a statutory amendment in 2016 introduced user protection requirements under the PSA as well as the AML/CFT requirements under the APTCP for virtual currencies (which was renamed 'cryptoassets' when such user protection requirements were strengthened by a statutory amendment in 2018), which made Japan the first country to create a national regulatory framework for cryptocurrencies. Since then, the FSA has been keen on user protection and AML/CFT.

While the FSA had shown a sceptical attitude towards cryptoassets, it seems that their attitude has become more positive, reflecting the government's current policy to promote Web 3.0.

With regard to tokenised securities (or security tokens) and EPIs, it seems the FSA's attitude has been generally positive since the introduction of the regulatory frameworks by respective statutory amendments in 2018 and 2022.

Law stated - 25 11 2024

Regulatory authorities

Which government authorities regulate cryptoassets and businesses transacting with cryptoassets?

The Financial Service Agency (FSA) is in charge of the PSA, FIEA and other financial regulatory statutes and supervises financial service providers regulated thereunder (such as CAESPs, EPISPs, banks, trust companies, FIBOs and RFIs) to enforce these statutes and the APTCP. The Ministry of Finance is in charge of sanction-related requirements under the FEFTA and may inspect such financial service providers to enforce such requirements.

Law stated - 25 11 2024

Regulatory penalties

What penalties can regulators impose for violations relating to cryptoassets?

A violation of the licensing requirement under the PSA or FIEA by an unregistered service provider with respect to any cryptoasset (as defined in the PSA), EPI, or security (as defined in the FIEA) may result in a public alert by the regulator as well as criminal penalties involving fines or imprisonment or both. A violation of licensing or other requirements under the FIEA may also cause a prohibition or stay order by a court, upon application by the regulator.

In the case of a violation of the regulatory requirements by a regulated service provider, the regulator will usually seek supervisory measures, such as (1) a business improvement order, (2) a business suspension order, or (3) rescission of registration, authorisation or licence, rather than criminal penalties.

Committing an act of market abuse involving any cryptoasset or security prohibited under the FIEA may result in criminal penalties involving fines or imprisonment or both. In the case of market abuse involving a security, the payment of an administrative monetary penalty may be ordered by the regulator.

Law stated - 25 11 2024

Court jurisdiction

Which courts have jurisdiction over disputes involving cryptoassets?

There is no special subject-matter jurisdiction for cryptoassets (as defined in the PSA), EPIs, or tokenised securities (as regulated under the FIEA) in civil and criminal procedures.

It should be noted that, in the case of a civil dispute with a customer, regulated service providers for cryptoassets, EPIs, or securities are required to utilise a mediation conducted by the alternative dispute resolution organisation designated by the FSA, such as the Financial Instruments Mediation Assistance Center (FINMAC), the Japanese Bankers Association or the Trust Companies Association of Japan, or otherwise an alternative dispute resolution organisation appointed by the relevant self-regulatory organisation, such as the FINMAC or the three bar associations in Tokyo, if an application is made by the customer to such organisation.

Law stated - 25 11 2024

Legal status of cryptocurrency

Is it legal to own or possess cryptocurrency, use cryptocurrency in commercial transactions and exchange cryptocurrency for local fiat currency in your jurisdiction?

To own or possess: it is legal to own or possess cryptocurrency.

To use cryptocurrency in commercial transactions: it is generally legal to use cryptocurrency, subject to prohibition by sanctions implemented under the FEFTA or the Asset-Freezing Act.

To exchange cryptocurrency for local fiat currency: it is generally legal to exchange cryptocurrency for Japanese yen, subject to market abuse prohibition under the FEFTA, licensing requirements under the PSA and FIEA and prohibition by sanctions implemented under the FEFTA or the Asset-Freezing Act.

Law stated - 25 11 2024

Fiat currencies

| What fiat currencies are commonly used in your jurisdiction?

Japanese yen is the sole legal tender under Japanese law and is commonly used domestically. On the other hand, the US dollar is the most prevailing currency used in international trade.

Law stated - 25 11 2024

| Industry associations

What are the leading industry associations addressing legal and policy issues relating to cryptoassets?

The following self-regulatory organisations are addressing legal and policy issues relating to cryptoassets (as defined in the PSA) or tokenised securities (as regulated under the FIEA).

SRO	Regulated members
Japan Virtual and Crypto assets Exchange Association (JVCEA)	CAESPs, EPISPs, EPI issuers that are funds transfer service providers or (foreign) trust companies, and FIBOs/RFIs that deal with cryptoasset or EPI-based derivatives.
Japan Security Token Offering Association (JSTOA)	FIBOs/RFIs that deal with non-traditional securities, such as partnership interests, represented by tokens (defined as 'electronically recorded transferable rights', etc).
Japan Securities Dealers Association (JSDA)	FIBOs/RFIs that deal with 'paragraph (1) securities' (other than 'electronically recorded transferable rights'), including traditional securities, such as shares and bonds, represented by tokens (defined as 'tokenised securities').

In addition to the above, there are some industrial associations related to cryptoassets and other tokens that also address such issues.

Law stated - 25 11 2024

CRYPTOASSETS FOR INVESTMENT AND FINANCING

Regulatory threshold

What attributes do the regulators consider in determining whether a cryptoasset is subject to regulation under the laws in your jurisdiction?

Under the Payment Services Act (the PSA), cryptoassets are defined as 'item (i) cryptoassets' and 'item (ii) cryptoassets'.

According to the definition, a token, excluding any fiat currency, asset denominated or redeemable in fiat currency, tokenised security, and electronic payment instruments (EPI), is categorised as:

- an item (i) cryptoasset, if it can be used for payments to unspecified persons and can be sold to and purchased from unspecified persons; or
- an item (ii) cryptoasset, if it can be exchanged with any item (i) cryptoasset with unspecified persons and has an economic function equivalent to item (i) cryptoassets.

On 24 March 2023, the Financial Services Agency (FSA) amended its administrative guidelines for 'cryptoasset exchange service providers' (CAESPs) in order to clarify the definition of cryptoassets, which introduced a 'safe harbour' rule.

Law stated - 25 11 2024

Investor classification

How are investors in cryptoassets classified and treated differently?

Cryptoassets and EPIs

There are no classifications for investors in the cryptoassets and EPIs regulations in the PSA.

On the other hand, with regard to cryptoasset or EPI-based derivatives, investors are classified into professional investors and general investors under the Financial Instruments Exchange Act (the FIEA).

Professional investors include, for example:

- qualified institutional investors (QIIs);
- the Japanese government;
- the Bank of Japan;
- listed companies;
- corporations with stated capital that is reasonably expected to be ¥500 million or more;
- financial instruments business operators (FIBOs); and
- foreign corporations.

Professional investors other than those in the first three points above can be treated as general investors upon their request. Corporations other than professional investors and certain individuals can be treated as professional investors upon their request.

Conduct regulations for the purpose of customer protection applicable to service providers regulated under the FIEA, such as FIBOs and registered financial institutions (RFIs), are eased if the customer is a professional investor.

Tokenised securities

The securities regulations under the FIEA classify investors into various categories, such as:

- QIIs (for disclosure requirements and the 'specially permitted business for qualified institutional investors, etc' exemption to licensing requirements);
- professional investors (for disclosure requirements and conduct regulations (please see above); and
- eligible non-QIIs (for the 'specially permitted business for qualified institutional investors, etc' exemption).

Under the tokenised securities regulations, the scope of investors that can acquire exempted electronically recorded transferable rights (untraditional securities such as partnership-type fund interests that are still subject to relaxed regulatory frameworks for 'paragraph (2) securities') are limited to QIIs and certain investors, which are almost same as eligible non-QIIs in the case of the relevant fund not being a venture fund.

Law stated - 25 11 2024

Initial coin offerings

What rules and restrictions govern the conduct of, and investment in, initial coin offerings (ICOs)?

Conducting any offering of cryptoassets (as defined in the PSA) is subject to the regulations of the PSA, under which the issuer of such cryptoassets is required to be registered as a CAESP unless it fully entrusts distribution activities to a CAESP.

A CAESP handling such an initial coin offering (ICO) is also subject to the ICO rules under the Financial Services Agency's (FSA) administrative guidelines for CAESPs and the self-regulatory rules of the Japan Virtual and Crypto assets Exchange Association (JVCEA), a self-regulatory organisation for CAESPs, regarding, for example, due diligence, monitoring and disclosure.

Law stated - 25 11 2024

Security token offerings

What rules and restrictions govern the conduct of, and investment in, security token offerings (STOs)?

Offerings of tokenised securities (as regulated under the FIEA) are generally called STOs and regulated under the FIEA.

Tokenised securities can be classified into three categories:

- 'tokenised securities' as defined by the Japan Securities Dealers Association (JSDA) (tokenised traditional securities);
- electronically recorded transferable rights; and
- exempted electronically recorded transferable rights.

The following table shows a brief overview of how each category of tokenised securities is regulated under the FIEA.

	Traditional securities (such as shares and bonds) that are represented by tokens	Tokenised securities as regulated under the FIEA	Non-traditional securities (such as partnership-type fund interests) that are represented by tokens
'Tokenised securities' as defined by the JSDA		'Electronically recorded transferable rights, etc' as defined by the Japan Security Token Offering Association (JSTOA)	
'Electronically recorded transferable rights'		'Exempted electronically recorded transferable rights'	
Outline of definitions			
Excluding those stated in the column to the right		Technical measures are implemented to restrict the acquirers and transferees to certain categories of investors and have each transfer subject to the transferor's application and the issuer's permission	
Disclosure requirements	Classified as 'paragraph (1) securities.' The ordinary initial disclosure requirement applies to an offering unless the offering constitutes a private placement for (1) QILs, (2) professional investors or (3) less than 50 investors.	Classified as 'paragraph (2) securities.' The disclosure requirements apply to an offering only if the contributed assets are mainly invested into securities and the offering results in 500 or more holders.	
Brokerage, dealing or distribution	Registration as a FIBO engaged in 'type I financial instruments business' required	Registration as a FIBO 'type II financial instruments business' required	
Offering by the issuer		Registration as a FIBO engaged in 'type II financial instruments business' required for certain types of securities (such as trust or partnership-type fund interests) subject to the 'specially permitted business for qualified institutional investors, etc' exemption for partnership-type fund interests	
Self-regulatory organisation	JSDA		JSTOA

Law stated - 25 11 2024

Stablecoins

What rules and restrictions govern the issue of, and investment in, stablecoins?

In the PSA, stablecoins denominated or redeemable in fiat currency generally are categorised as electronic payment instruments (EPIs), which are defined substantially as follows:

- Item (i) EPIs: tokens denominated or redeemable in fiat currency, that can be used for payments to unspecified persons and can be sold to and purchased from unspecified persons (excluding certain assets such as securities);
- Item (ii) EPIs: tokens that can be exchanged with any item (i) EPI, with unspecified persons, and that have an economic function equivalent to an item (i) EPI;

- Item (iii) EPIs (or specified trust beneficial interests): beneficial interests in a trust that has been created by placing cash in trust, which can be redeemed in cash, and where the trust assets are demand deposits with a bank or any other deposit institution in the same currency; or
- Item (iv) EPIs: tokens that are not denominated or redeemable in fiat currency, that can be used for payments to unspecified persons, that can be sold to and purchased from unspecified persons, and that are specified by the Commissioner of the FSA (to date, no stablecoins are specified as item (iv) EPIs).

Stablecoins categorised as item (iii) EPIs are excluded from the definition of securities in the FIEA.

However, stablecoins that are not denominated or redeemable in fiat currency (eg, stablecoins the value of which is stabilised by algorithm or backed by cryptoassets), excluding item (iv) EPIs, generally are regarded as cryptoassets, and the FSA's administrative guidelines prohibit CAESPs from referring to those types of stablecoins as 'stablecoins' because the reference is misleading.

If an EPI is redeemable in a fixed amount in fiat currency, the issuance of such stablecoin to residents in Japan is generally required to be made by a bank defined by and licensed under the Banking Act or any other deposit institution licensed under other statutes, a 'funds transfer service provider'(type II or type III) registered under the PSA or, if the EPI is an item (iii) EPI, a trust company or foreign trust company licensed or registered under the Trust Business Act that has submitted a notification to the regulator under the PSA to issue the item (iii) EPI (each, a Regulated EPI Issuer).

In addition, an EPI exchange or custodian is required to be registered as an electronic payment instruments service provider (EPISP), except for (1) an EPI exchange or custodian which is the issuer of the EPI it handles, is a Regulated EPI Issuer and has submitted a notification to the regulator under the PSA, and (2) an EPI custodian acting as trustee, which is a bank licensed under the Banking Act, or a trust company or foreign trust company licensed or registered under the Trust Business Act. An EPISP is allowed to handle EPIs issued by foreign financial institutions, subject to certain additional restrictions.

Law stated - 25 11 2024

Airdrops

Are cryptoassets distributed by airdrop treated differently than other types of offering mechanisms?

As long as they are distributed free of charge, such distributions are not regulated under the PSA or FIEA. However, if such an airdrop distribution is conducted as a means of inducing customers in connection with a transaction involving goods or services supplied, such distribution may be subject to ceilings under the Act Against Unjustifiable Premiums and Misleading Representations.

Law stated - 25 11 2024

Advertising and marketing

What laws and regulations govern the advertising and marketing of cryptoassets used for investment and financing?

With regard to cryptoassets (as defined in the PSA), advertising and marketing by CAESPs (for spot trading or custodial services) or FIBOs/RFIs (for derivatives) are subject to requirements under the PSA or the FIEA, respectively, and self-regulatory rules of the JVCEA.

With regard to EPIs, advertising and marketing by issuers (for the EPIs issued thereby), EPISPs (for spot trading or custodial services) or FIBO/RFIs (for derivatives) are subject to requirements in the statutes that regulate the issuing business (eg, the PSA if the issuer is a funds transfer service provider), the PSA or the FIEA, respectively.

With regard to tokenised securities, advertising and marketing by FIBOs/RFIs are subject to the FIEA and self-regulatory rules of the relevant self-regulatory organisation (JSDA or JSTOA).

Law stated - 25 11 2024

Trading restrictions

Are investors in an ICO/STO/stablecoin subject to any restrictions on their trading after the initial offering?

Tokenised non-traditional securities (such as partnership-type fund interests) are categorised as 'exempted electronically recorded transferrable rights' and subject to less restrictive disclosure requirements and business regulations, only if technical measures are implemented to restrict the acquirers and transferees to certain categories of investors and have each transfer be subject to the transferor's application and the issuer's permission.

Except for restrictions under sanction measures, there are no general restrictions on the trading of cryptoassets (as defined in the PSA), EPIs, tokenised securities (as regulated under the FIEA) or other tokens.

Law stated - 25 11 2024

Crowdfunding

How are crowdfunding and cryptoasset offerings treated differently under the law?

Offerings of securities for crowdfunding and that of tokenised securities are separately regulated under the FIEA, and both regulations apply to the offering of tokenised securities for crowdfunding.

Generally, FIBOs/RFIs are subject to additional business conduct requirements if they operate an online platform to distribute securities for crowdfunding. The FIEA also has relaxed regulatory requirements for the operator of an online platform to distribute securities for small-amount crowdfunding.

Law stated - 25 11 2024

Transfer agents and share registrars

What laws and regulations govern cryptoasset transfer agents and share registrars?

The Companies Act governs the role of share or bond register administrators and the Trust Act governs the role of beneficial interest register administrators, which still applies even if the relevant securities are tokenised. There are no regulatory requirements for them.

Law stated - 25 11 2024

Anti-money laundering and know-your-customer compliance

What anti-money laundering (AML) and know-your-customer (KYC) requirements and guidelines apply to the offering of cryptoassets?

Money laundering is prohibited by [the Act on Punishment of Organised Crimes and Control of Proceeds of Crime](#) (the APOC) and [the Act Concerning Special Provisions for the Narcotics and Psychotropics Control Act, etc. and Other Matters for the Prevention of Activities Encouraging Illicit Conduct and Other Activities Involving Controlled Substances through International Cooperation](#) (the Anti-Drug Special Act).

In addition, for the purpose of AML/CFT, financial institutions, such as CAESPs, EPISPs, FIBOs and RFIs, are, when they provide services related to cryptoassets (as defined in the PSA), EPIs or tokenised securities (as regulated under the FIEA), required to conduct KYC, prepare and maintain KYC and transaction records and report suspected activities to the regulator under the Act on Prevention of Transfer of Criminal Proceeds (the APTCP). They must also consider the FSA's AML/CFT guidelines. They are also subject to KYC and recordkeeping requirements under the FEFTA.

Deposit institutions, CAESPs and EPISPs also are subject to Travel Rule requirements under the APTCP (and, in the case of CAESPs/EPIs, the self-regulatory rules of the JVCEA), and CAESPs and EPISPs are required to collect and keep records of information on wallets used by transaction counterparties if those wallets are not regulated under the Travel Rule requirements in any jurisdiction (such as un-hosted wallets and non-regulated hosted wallets).

Law stated - 25 11 2024

Sanctions and Financial Action Task Force compliance

What laws and regulations apply in the context of cryptoassets to enforce government sanctions, anti-terrorism financing principles, and Financial Action Task Force (FATF) standards?

There are various statutes to enforce government sanctions, anti-terrorism financing principles and FATF standards. Sanction measures are taken under and enforced by the FEFTA and the Asset-Freezing Act. The financing of terrorism is prohibited by [the Act on](#)

[Punishment of Financing of Offences of Public Intimidation](#) and enforced through sanctions measures under the FEFTA and Asset-Freezing Act.

Law stated - 25 11 2024

CRYPTOASSET TRADING

Fiat currency transactions

What rules and restrictions govern the exchange of fiat currency and cryptoassets?

The trading of cryptoassets (as defined in the Payment Services Act (the PSA)) or tokenised securities (as regulated under the Financial Instruments Exchange Act (the FIEA)) is subject to prohibition from market abuse (such as market manipulation) under the FIEA, and violation of such prohibition may result in criminal penalties and (in the case of tokenised securities) administrative monetary penalties. However, in respect to cryptoassets, insider trading is not prohibited.

Law stated - 25 11 2024

Exchanges and secondary markets

Where are investors allowed to trade cryptoassets? How are exchanges, alternative trading systems and secondary markets for cryptoassets regulated?

Generally, investors are not subject to any restrictions on the trading venue, but the operator of the venue is regulated.

Cryptoassets

The operator of an exchange for spot trading of cryptoassets (as defined in the PSA) is required to be registered as a 'cryptoasset exchange service provider' (CAESP) under the PSA, except for a foreign exchange used by CAESPs for cover trading. Under the PSA, a CAESP must comply with certain regulatory requirements regarding, for example, advertisement and solicitation, explanation and information provision to customers, market abuse prevention, cryptoasset margin transactions, the segregation of deposited cash in trusts and segregation and secure administration of deposited cryptoassets.

EPIs

The operator of an exchange for spot trading of electronic payment instruments (EPI) is required to be registered as an 'electronic payment instruments service provider' (EPISP) under the PSA, except for an operator that is the issuer of the handled EPI who is a Regulated EPI Issuer that has submitted a notification to the regulator under the PSA.

Tokenised securities

The operator of an online platform for the secondary market of tokenised securities must be licensed as a financial instruments exchange under the FIEA or registered as a 'financial instruments business operator' (FIBO) conducting 'type I financial instruments business' and authorised as the operator of a proprietary trading system (PTS). So far, there is one FIBO that operates a PTS for tokenised securities.

Law stated - 25 11 2024

Custody

How are cryptoasset custodians regulated?

Cryptoassets

A custodian for cryptoassets (as defined in the PSA) must be registered as a CAESP under the PSA, unless regulated under any other statute. Under the PSA, a CAESP must comply with certain regulatory requirements regarding, for example, advertisement and solicitation, explanation and information provision to customers, market abuse prevention, cryptoasset margin transaction, the segregation of deposited cash in trusts and segregation and secure administration of deposited cryptoassets.

A (foreign) trust company registered or licensed under the Trust Business Act and a bank licensed under the Banking Act and authorised to engage in trust business under the Act on Engagement in Trust Business Activities by Financial Institutions, can conduct custody business for cryptoassets without registration as a CAESP. Under these Acts, they must comply with certain regulatory requirements regarding, for example, the segregation and secure administration of cryptoassets in trust.

No deposit institutions except for banks may provide custodial services for cryptoassets.

EPIs

A custodian for EPIs must be registered as a EPISP under the PSA, except for a custodian that is the issuer of the handled EPI which is a Regulated EPI Issuer that has submitted a notification to the regulator under the PSA.

A (foreign) trust company registered or licensed under the Trust Business Act and a bank licensed under the Banking Act and authorised to engage in trust business under the Act on Engagement in Trust Business Activities by Financial Institutions can conduct custody business for EPIs without registration as a EPISP. Under these Acts they must comply with certain regulatory requirements regarding, for example, the segregation and secure administration of EPIs in trust.

No deposit institutions except for banks may provide custodial services for EPIs.

Tokenised securities

Custodial services for tokenised securities are not subject to any regulations, except for where such services are provided by a financial instruments business operator or registered financial institution (RFI) in connection with their own services such as brokerage, dealing or

distribution. In such cases, the FIBO/RFI must comply with certain requirements regarding the segregation and secure administration of deposited tokenised securities.

A (foreign) trust company registered or licensed under the Trust Business Act and a bank or other deposit institution authorised to engage in trust business under the Act on Engagement in Trust Business Activities by Financial Institutions can provide custodial services in the form of trust. When they hold tokenised securities in trust, they must comply with certain requirements regarding the segregation and secure administration of deposited tokenised securities.

Law stated - 25 11 2024

Broker-dealers

How are cryptoasset broker-dealers regulated?

Cryptoassets

A broker-dealer for the spot trading of cryptoassets (as defined in the PSA) must be registered as a CAESP under the PSA. Under the PSA, a CAESP must comply with certain regulatory requirements regarding, for example, advertisement and solicitation, explanation and information provision to customers, market abuse prevention, cryptoasset margin transactions, the segregation of deposited cash in trust and segregation and secure administration of deposited cryptoassets.

On the other hand, a broker-dealer for the derivative trading of cryptoassets must be registered as a FIBO/RFI under the FIEA. Under the FIEA, such broker-dealer must comply with certain regulatory requirements regarding, for example, market abuse prevention, advertisement and solicitation, explanation and information provision to customers, loss-cuts and margins.

EPIs

A broker-dealer for the spot trading of EPIs must be registered as an EPISP under the PSA, except for a broker-dealer that is the issuer of the EPI which is a Regulated EPI Issuer that has submitted a notification to the regulator under the PSA.

On the other hand, a broker-dealer for the derivative trading of EPIs must be registered as a FIBO/RFI under the FIEA. Under the FIEA, such broker-dealers must comply with certain regulatory requirements regarding, for example, market abuse preventions, advertisement and solicitation, explanation and information provision to customers, loss-cuts and margins.

Tokenised securities

A broker-dealer for the spot or derivative trading of tokenised securities must be a FIBO/RFI. Under the FIEA, such broker-dealer must comply with certain regulatory requirements regarding, for example, market abuse prevention, advertisement and solicitation, explanation and information provision to customers and the best execution policy.

Law stated - 25 11 2024

Decentralised exchanges

What is the legal status of decentralised cryptoasset exchanges?

If a decentralised exchange is virtually managed by a person, such person is subject to the applicable licensing requirement. However, if a decentralised exchange is not managed by any person, its regulatory status is unclear.

Law stated - 25 11 2024

Peer-to-peer exchanges

What is the legal status of peer-to-peer (person-to-person) transfers of cryptoassets?

Transfers of cryptoassets between users (not acting as a dealer) are not prohibited or regulated, except for prohibitions under sanction measures and cross-border payment reporting requirements under the Foreign Exchange and Foreign Trading Act (the FEFTA).

Law stated - 25 11 2024

Trading with anonymous parties

Does the law permit trading cryptoassets with anonymous parties?

Trading with anonymous parties is generally not prohibited. However, financial institutions, such as CAESPs, EPISPs, FIBOs and RFIs are generally subject to KYC requirements under the Act on Prevention of Transfer of Criminal Proceeds and, in some cases, the FEFTA.

Law stated - 25 11 2024

Foreign exchanges

Are foreign cryptocurrency exchanges subject to your jurisdiction's laws and regulations governing cryptoasset exchanges?

Yes, foreign cryptocurrency exchanges are subject to the relevant licensing requirements under Japanese law.

Law stated - 25 11 2024

Foreign exchanges

Under what circumstances may a citizen of your jurisdiction lawfully exchange cryptoassets on a foreign exchange?

No restrictions apply to a Japanese citizen in trading cryptoassets (as defined in the PSA), EPIs or tokenised securities (as regulated in the FIEA) on a foreign exchange (except for sanctions measures).

However, the operator of a foreign exchange for cryptoassets, EPIs, or tokenised securities is subject to licensing requirements under Japanese law and is not allowed to accept residents in Japan, subject to certain exceptions.

For example, the operator of a foreign exchange for the spot trading of cryptoassets is, unless registered as a CAESP under the PSA, not allowed to accept residents in Japan as customers, except for CAESPs conducting cover trading.

Similarly, a foreign OTC cryptoasset-based derivative dealer is, unless registered as a FIBO/RFI under the FIEA, not allowed to accept residents in Japan as customers. However, such registration requirement does not apply if the customer is:

- the Japanese government;
- the Bank of Japan;
- a FIBO/RFI that is a broker or dealer for OTC cryptoasset-based derivatives;
- a bank or other certain deposit institution, insurance company or trust company if they conduct OTC cryptoasset-based derivatives transactions for the purpose of proprietary investment or on the account of the settlor of a trust created by a trust agreement; or
- a FIBO/RFI acting for its investment management business.

Law stated - 25 11 2024

Taxes

Do any tax liabilities arise in the exchange of cryptoassets (for both other cryptoassets and fiat currencies)?

The transfer of cryptoassets (as defined in the PSA), EPIs or tokenised securities (as regulated in the FIEA) is not subject to value-added tax under Japanese law (ie, consumption tax and local consumption tax).

On the other hand, gains generated by the sale or exchange of cryptoassets are to be treated as taxable income. Further, if a corporation holds a cryptoasset that is traded in an active market at the end of its business year, the gain or loss on the valuation of such cryptoasset must be considered for its taxable income in the business year.

In this regard, [the Corporation Tax Act](#) was amended in 2023 and 2024 to introduce an exception that says if a cryptoasset continuously is held by the issuing corporation or a certain third party in a certain manner, without being allotted to any other party, it is excluded from fair value taxation.

Law stated - 25 11 2024

CRYPTOASSETS USED FOR PAYMENTS

Government-recognised assets

Has the government recognised any cryptoassets as a lawful form of payment or issued its own cryptoassets?

Payment by any cryptoassets (as defined in the Payment Services Act (the PSA)) or any other on-chain asset is neither prohibited nor restricted, subject to sanction measures under the Foreign Exchange and Foreign Trading Act (the FEFTA) or the Act on Special Measures Concerning Asset Freezing, etc. Conducted by Japan Taking into Consideration United Nations Security Council Resolution 1267, etc. (the Asset-Freezing Act). Cryptoassets are regulated under the PSA as form of payment.

The Japanese government has not issued its own cryptoassets or any other on-chain payment instruments, but there are discussions of having the Bank of Japan issue a central bank digital currency.

Law stated - 25 11 2024

Bitcoin

Does Bitcoin have any special status among cryptoassets?

Bitcoin has been recognised as a typical cryptoasset as defined in the PSA, but it has no special status compared to any other cryptoassets. Although a fiat currency is excluded from the definition of cryptoassets in the PSA, regardless of the legal status of Bitcoin in the Republic of El Salvador and the Republic of Central Africa, Bitcoin is still regarded as a cryptoasset.

Law stated - 25 11 2024

Banks and other financial institutions

Do any banks or other financial institutions allow cryptocurrency accounts?

Cryptocurrencies are generally regarded as cryptoassets as defined in the PSA, and banks and other deposit institutions are prohibited from providing cryptoasset custodial services, except for a bank licensed to engage in trust business.

A cryptoasset exchange service provider (CAESP) and trust company is allowed to provide such services.

While a financial instruments business operator (FIBO) engaged in type I financial instruments business (such as securities firms and OTC derivative dealers) or investment management business (such as a discretionary investment manager) cannot be registered as a CAESP without their regulator's approval, it is often seen that an OTC cryptoasset-based derivative dealer is also a CAESP with the regulator's approval.

Law stated - 25 11 2024

CRYPTOCURRENCY MINING

Legal status

What is the legal status of cryptocurrency mining activities?

Cryptocurrency mining activities are not prohibited or specifically regulated.

Law stated - 25 11 2024

Government views

What views have been expressed by government officials regarding cryptocurrency mining?

We are not aware of any official view expressed by government officials regarding cryptocurrency mining in the context of regulations.

In the context of taxation, the National Tax Agency clarifies how mining income is taxed.

With regard to a mining script, in a criminal case, the accused stored a mining script for the cryptocurrency Monero in a server computer for the accused's website for the purpose of using it to have the computers of the website's visitors mine Monero without the visitors' consent. The Supreme Court ruled, on 20 January 2022, that the accused was not guilty because such mining script was not regarded as socially impermissible.

Law stated - 25 11 2024

Cryptocurrency mining licences

Are any licences required to engage in cryptocurrency mining?

No. However, if a person conducts cryptocurrency mining activities using mining equipment deposited with the person by the customers and distributes mining profits to the customers, such business may be regulated under [the Act on Deposit Transactions](#). In such a case, if the equipment is sold by the person to the customers, the person needs to obtain annual confirmation from the Consumer Affairs Agency.

Law stated - 25 11 2024

Taxes

How is the acquisition of cryptocurrency by cryptocurrency mining taxed?

The National Tax Agency clarifies that acquisition of cryptoassets (as defined in the Payment Services Act) by mining is taxable. When anyone acquires cryptocurrency by mining, the fair value of the acquired cryptocurrency at the time of acquisition is included in gross income, and the costs of such mining are deducted in the calculation of taxable income.

Law stated - 25 11 2024

BLOCKCHAIN AND OTHER DISTRIBUTED LEDGER TECHNOLOGIES

Node licensing

Are any licences required to operate a blockchain/DLT node?

No licences are required to merely operate a blockchain/distributed ledger technology (DLT) node.

Law stated - 25 11 2024

Restrictions on node operations

Is the operation of a blockchain/DLT node subject to any restrictions?

The transfer of cryptoassets (as defined in the Payment Services Act (the PSA)) and other on-chain assets may be subject to sanction measures under the Foreign Exchange and Foreign Trading Act (the FEFTA) and the Act on Special Measures Concerning Asset Freezing, etc, and, if regarded as a payment, may be subject to payment reporting requirements under the FEFTA.

Law stated - 25 11 2024

DAO liabilities

What legal liabilities do the participants in a decentralised autonomous organisation (DAO) have?

The legal liabilities of the participants in a DAO depend on how it is legally organised. One generally recognised option is to establish a DAO in the form of a limited liability company (*godo kaisha* or GK) incorporated under the Companies Act, due to a recent regulatory amendment effective from April 2024, which aims to ease the regulatory treatment of tokenised membership interests in a GK that meets certain requirements under the Financial Instruments Exchange Act. When a DAO is established as a GK, the legal liabilities of its participants (as members of the GK) are generally limited to the amount they have contributed to the GK.

Law stated - 25 11 2024

DAO assets

Who owns the assets of a DAO?

Who owns the assets of a DAO depends on how it is legally organised. When a DAO is established in the form of a juristic person, such as a GK incorporated under the Companies Act, the juristic person may own assets in its name.

Law stated - 25 11 2024

Open source

Is DLT based on open-source protocols or software treated differently under the law than private DLT?

There are no statutory differences between the treatment of DLT based on open-source protocols or software and private DLT under law.

It should be noted that the Financial Services Agency has demonstrated a negative attitude toward the issuance of permissionless DLT-based stablecoins by banks. That said, generally, banks are not allowed to issue electronic payment instruments other than Item (iii) EPIs.

Law stated - 25 11 2024

Smart contracts

Are smart contracts legally enforceable?

A transaction contemplated by a smart contract can be, depending on the relevant circumstances, regarded as a legally enforceable contract as long as the legal requirements, particularly an offer and an acceptance between the parties, are satisfied. Note that, under Japanese law, there is no concept of a 'deed' as regarded in common law jurisdictions, and the type of contracts that must be written in a physical paper are limited.

Law stated - 25 11 2024

Patents

Can blockchain/DLT technology be patented?

Blockchain/DLT technology can be patented.

Law stated - 25 11 2024

UPDATE AND TRENDS

Recent developments

Are there any emerging trends, notable rulings or hot topics related to cryptoassets or blockchain in your jurisdiction?

Generally, the Japanese government is demonstrating a positive attitude towards the development of blockchain or Web 3.0 business. The Liberal Democratic Party, the major ruling party, has initiated regulatory and tax reforms for the blockchain-related sector by issuing several recommendations to the Japanese government on various measures to promote Web 3.0 business.

An amendment to [the Limited Partnership Act for Investment](#) (the LPAI), enacted on 31 May 2024, will allow venture capital funds structured in the form of 'investment limited partnerships' under the LPAI to invest in 'cryptoassets issued for the benefit of enterprises'. While this amendment, which will come into force by June 2025, is expected to support Web 3.0 startups to raise funds via newly issued cryptoassets, it remains uncertain whether (1) a

Web 3.0 startup can sell the cryptoassets issued to a venture capital fund or (2) the general partner of such a venture capital fund may invest in or divest from cryptoassets on behalf of the fund, in each case, without being registered as a cryptoasset exchange service provider (CAESP).

With regard to the trading venue for tokenised securities, an amendment to the Financial Instruments Exchange Act (the FIEA), enacted on 15 May 2024, will allow a financial instruments business operator engaged in type I financial instruments business to operate a proprietary trading system (PTS) for specific types of securities with a limited trading volume without additional authorisation to operate the PTS, which is required under the existing FIEA, and with relaxed regulatory requirements. This amendment, which will come into force by November 2024, is anticipated to enable securities firms to launch new PTSs for tokenised securities.

In addition, although [the Act on Specified Joint Real Estate Ventures](#) (the ASJREV), a statute regulating real estate funds, does not contain regulatory framework for tokenised real estate fund interests (or real estate-backed asset tokens) and they are not regulated as securities under the FIEA (unless issued by a special purpose company), an amendment to the FIEA and the ASJREV enacted on 20 November 2023, which will come into force by November 2024, will categorise any tokenised real estate fund interests as securities under the FIEA and introduce necessary regulatory framework to the ASJREV.

In 2024, the Financial Services Agency (FSA) conducted several regulatory reforms, which included:

- amending a regulation under the FIEA to ease regulatory treatment of tokenised membership interests in a limited liability company incorporated under the Companies Act that satisfies certain requirements, in order to realise a DAO in the form of GK;
- amending some of the FSA's guidelines to clarify the scope of activities regulated as cryptoasset exchange service or electronic payment instruments service under the Payment Services Act;
- amending some of the FSA's guidelines to elaborate on cybersecurity measures to be taken by financial service providers (including CAESPs, electronic payment instruments service providers, financial instruments business operators and registered financial institutions); and
- proposing amendments to the FSA's guidelines to clarify the illegality of certain online advertisements in order to address online investment fraud that utilises advertisements on social media.

Additionally, a working group under the Financial System Council, an advisory body established within the FSA, has commenced discussions to review payments and other financial regulations. The review is anticipated to cover several topics, including:

- the introduction of measures to ensure the return of domestic users' assets in the event of insolvency of an internationally active CAESP;
- the relaxation of restrictions on the underlying assets of 'specified trust beneficial interests' (stablecoins in the form of trust beneficial interests regulated under the Payment Services Act);

- the introduction of a new regulatory framework for intermediaries acting for the benefit of a CAESP or electronic payment instruments service provider;
- the permissibility of the issuance of stablecoins by deposit institutions (such as banks); and
- the Travel Rule requirements for specified trust beneficial interests.

Simultaneously, the FSA has commenced a high-level review of the regulatory treatment of cryptoassets in financial regulations, which may result in further major regulatory reforms.

Law stated - 25 11 2024