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I. The roadmap for commencing Integrated Resorts (IR) operations in Japan, and the regulations applied to IR operations in Japan

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On July 20, 2018, the Act on Implementation of Specified Complex Tourist Facilities Areas (the “IR Implementation Act”) was passed. This Act was promulgated on July 27. This Act prescribed the roadmap for commencing IR operations, and the regulations applied to IR operations. Details of the roadmap and regulations are as follows:

1. Roadmap for Commencing IR Operations

Under the IR Implementation Act, the following steps are required to start IR operations:

- (i) the Minister of Land, Infrastructure, Transportation, and Tourism prescribes a basic policy of development;
- (ii) in accordance with the basic policy, a prefecture or Cabinet Order-specified city (a “Prefecture, Etc.”) prescribes an implementation policy of development;
- (iii) in accordance with the implementation policy, the Prefecture, Etc. selects a private IR business operator, by public bidding;
- (iv) the Prefecture, Etc. and the selected IR business operator jointly create an area development plan;
- (v) the Minister of Land, Infrastructure, Transportation, and Tourism certifies the area development plan;
- (vi) the certified Prefecture, Etc. and IR business operator enter into an agreement regarding the implementation of the IR business;
- (vii) the Minister of Land, Infrastructure, Transportation, and Tourism authorizes the agreement regarding the implementation of the IR business;
- (viii) the certified IR business operator applies to the Casino Administration Committee for a casino business license;
- (ix) the Casino Administration Committee issues a casino business license; and
- (x) the IR business operator is able to start IR operations from the date notified to the Minister of Land, Infrastructure, Transportation, and Tourism.

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Certification of the area development plan as stated in (v) is valid for ten (10) years, and the casino business license as stated in (ix) is valid for three (3) years, with each of them being renewable. It should be noted that the Prefecture, Etc. is required to obtain a resolution from its council upon the application for the initial certification and each renewal of the area development plan. This means that the IR business operator cannot continue its casino business if the Prefecture, Etc. fails to pass such a resolution upon renewal.

The number of initial IRs is anticipated to be two (2) or three (3), with the maximum limit being three (3) under the IR Implementation Act, which will be reviewed after seven (7) years have elapsed since the certification of the initial area development plan.

An approximate timeline of the procedures above is expected as below.

- ✓ 2019-2020: Selection of an IR business operator by the Prefecture, Etc.
- ✓ 2021-2022: Certification of the first area development plan
- ✓ 2025-2026: Opening of the first IR

2. Regulations on IR Operations

An outline of the major regulations on IR operations is as follows:

(1) Licensing system for casino operation

In the IR Implementation Act, multiple and extensive entry regulations on the casino business are prescribed, and only persons who meet the extremely strict requirements are allowed to operate a casino business.

- ✓ As stated above, the casino business license is valid for three (3) years.
- ✓ Major shareholders of the casino operator are also required to obtain authorization from the Casino Administration Committee.

The structure and equipment of the casino facility must comply with the standards prescribed by the IR Implementation Act.

- ✓ One IR facility can only possess one casino facility.
- ✓ The total floor space of the areas mainly used for casino activity should not exceed the standards to be prescribed by Cabinet Order.
 - Although the Cabinet Order above has not yet been established, the standard is anticipated to be 15,000 m².

Furthermore, the IR Implementation Act contains regulations on casino operator employees, business operators using casino facilities, and manufacturers of casino-related equipment, etc.

(2) Gambling Addiction Countermeasures

As one gambling addiction countermeasure, the IR Implementation Act requires casino business operators to prepare a rule to prevent gambling addiction that complies with legal requirements. In addition, casino business operators need to provide some measures to prevent gambling addiction, such as measures to prevent addiction to gambling in a casino facility, admission regulation, identification at entrance and exit, measures to prevent unauthorized persons from using a casino facility who are prohibited from being admitted into a casino facility, and measures to comply with the provisions regarding admission regulation.

- ✓ As an identification measure, the casino business operator is required to have a customer show his or her Individual Number Card (for foreigners and Japanese who live in foreign countries, his or her passport) and confirm that he or she is

not a person who is prohibited from being admitted into a casino facility, at the entrance and exit.

- ✓ Japanese customers are allowed to enter a casino facility up to three (3) times in seven (7) days, and ten (10) times in twenty-eight (28) days.

In addition, Japanese customers are required to pay 6,000 yen as an admission fee.

(3) Money Laundering Countermeasures

As money laundering countermeasures, the IR Implementation Act requires casino business operators to prepare a rule to prevent money laundering that complies with legal requirements. In addition, casino business operators need to provide some measures to prevent money laundering, such as appropriate confirmation of casino customer identity, measures to prevent assignment of chips, and displaying a prohibition sign to prevent assignment of chips.

(4) Payments to the National Treasury and the Certified Prefecture

The IR Implementation Act requires a casino business operator to make payments to the national treasury (15% of the gross gaming revenue (the GGR)) and payments to the certified Prefecture, Etc. (15% of the GGR).

(5) Financial Regulations

As part of the service by casino business operators, the IR Implementation Act allows casino business operators to (i) transfer a customer's money between a customer's account managed by a casino business operator and a deposit account specified by the customer via banks, etc., (ii) accept a customer's money, (iii) lend money to a customer, and (iv) exchange a customer's money.

However, in order to provide the services above, casino business operators are required to comply with regulations under the IR Implementation Act.



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II. Development of the Esports Business in Japan

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1. Development of Esports in Japan

Esports (electronic sports) are one of the biggest movements attracting game fans all over the world; furthermore, it is reported that market volume has increased to USD 500 million, and it will exceed USD 1,500 million over the next several years. Accordingly, major Esports-tournaments held in the U.S. and Europe have become well-known, with some huge winner prizes, worth over USD 10 million.

Japan has also followed the same trend. Previously, most Japanese were not familiar with the word “Esports”; however, these days, these new types of sports have gradually become well-known, and appear in news media almost daily. In fact, three Japanese Esports associations have merged into one association, named JeSU, in February 2018, in order to join the Japan Olympic Committee (the JOC), which sends athletes to the Olympic Games. Additionally, JeSU started issuing professional licenses for several game titles, for the first time in Japan.

With respect to the economic impact of Esports, Japan lags behind other Asian nations such as Korea and China; however, we will see drastic development in the near future, when considering the power of Japanese game publishers like Nintendo, Sony, and Capcom. Although market volume in Japan was reported to be less than USD 5 million in 2017, if the market follows the global trend as above, it will double by 2020, when the Olympics are held in Tokyo.

2. Increase in the Number of Esports-related Transactions in Japan

The profit structure of the Esports business in Japan is almost the same as in other countries. Online game publishers, developers of Esports game equipment, organizers of Esports events (professional leagues and tournaments) and management companies of Esports teams are all involved and participating in the Japanese Esports market. Recently, the number of M&A transactions and investments regarding Esports involving Japanese companies is increasing.

- (1) Square Enix (a popular Japanese game publisher) and Tencent (a huge Chinese IT service provider) announced that they had entered into a capital alliance. According to the press release, Square Enix will enhance its content services worldwide. This alliance will affect the economic structure of the Esports market in Japan.
- (2) The Japanese entertainment company Akatsuki has acquired majority shares of Professional Esports League, S.L. Akatsuki announced that it will establish a new Esports league, that involves only professional clubs, such as FC Barcelona and Galatasaray, to play Esports.

3. Regulatory Problems concerning Winner Prizes have been resolved in Japan

Previously, it was stated that specific laws in Japan may set a cap on winner prizes, and it was difficult for game publishers to offer expensive winner prizes for Esports tournaments over JPY 100,000. However, a relevant government officer has confirmed that this problem can be resolved, by adequately structuring the prize system (i.e., winner prizes are given in exchange for a certain level of performance by game players, which is regarded as “work”). In fact, several game publishers have efficiently started to create professional leagues or tournaments, with bounty prize money.

4. Other Regulatory Problems still remain – Illegal Betting and Business Licensing

Other than the problem with winner prize caps, there are still some regulatory problems, such as illegal betting and amusement business licensing.

- (1) If you would like to hold Esports tournaments with prize money, you should not prepare the prize money using contributions made by participants. In Japan, this type of funding would be regarded as betting, which is prohibited under criminal law.
- (2) If you would like to set up PCs for players in an Esports event and profit from visitors, you might need to acquire an amusement business license in advance. We are not aware of any cases that have been prosecuted due to a lack of business license, but you might face a fine for a breach of the Amusement Business Law.

5. N&A is the Best Partner for starting Esports Business in Japan

Nishimura & Asahi (N&A) is one of Japan's premier full-service law firms, covering all aspects of domestic and international business and corporate activity. The firm currently has more than 550 Japanese and foreign lawyers, and employs over 600 support staff, including tax accountants, and one of the largest teams of paralegals in Japan.

We have clients who are involved and participating in Esports business, and the firm covers the following areas of legal services regarding Esports topics.

- ✓ Esports business investments and M&A
- ✓ Esports team formation and development, along with regulation in Japan
- ✓ Structuring and creation of tournament rules
- ✓ Esports players and streamers agreements and transfers
- ✓ Disputes related to patents and the media rights of individual games
- ✓ Sponsorship agreements
- ✓ Esports Regulatory Analysis in Japan



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