

Outline of “Analysis on Tokenization of J-Credits”

Finance Law & Web3 / Metaverse Newsletter

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1. Introduction

On September 25, 2025, a Report titled “Analysis on the Tokenization of J-Credits” (“**Report**”), prepared primarily by our firm, was published on the websites of the J-Credit Scheme¹ and the Ministry of Economy, Trade and Industry.²

The Report examines various legal issues related to the “tokenization of J-Credits,” which involves rights relating to J-Credits represented electronically on a blockchain, using J-Credits as the underlying asset.³

2. Structure and Overview of the Report

The structure and an overview of the Report are as follows.

Table of Contents	Overview
(i) What Is the Tokenization of J-Credits (the Report, pages 1–14)	<ul style="list-style-type: none"> ● The tokenization of J-Credits refers to representing rights relating to J-Credits electronically on a blockchain, using J-Credits as the underlying asset. ● The tokenization of J-Credits is believed to offer benefits, such as extending trading hours and diversifying payment methods.
(ii) Substantive Legal Issues (the Report, pages 14–31)	<ul style="list-style-type: none"> ● Article 3, Paragraph 2 of the J-Credit Scheme Implementation Guidelines states that, in principle, the attribution and transfer of J-Credits shall be effected by recordation in the J-Credit Registry. Therefore, the legal characterization of the rights held by token holders is deemed to be claims against the J-Credit holder (registered owner), such as the right to request a change of name to the J-Credit holder (registered owner)

¹ <https://japancredit.go.jp/data/pdf/sankou01.pdf> [only in Japanese]

² https://www.meti.go.jp/policy/energy_environment/kankyuu_keizai/japancredit/index.html [only in Japanese]

³ The Report is based on findings made as of September 27, 2024.

	<p>and/or the right to request invalidation,⁴ rather than persons or entities being deemed to hold the J-Credits themselves.</p> <ul style="list-style-type: none"> ● As a consequence, it also would be valid for the J-Credit holder (registered owner) to transfer rights or provide security over the J-Credit without transferring the token. Even if the token holder exercises their rights, if the J-Credit holder (registered owner) transfers its rights to the J-Credit, neither a change of name nor invalidation of the J-Credit would be effected, and the token holder would be able to claim damages against the J-Credit holder (registered owner).
(iii) Issues under the J-Credit System (Report, pages 32–35)	<ul style="list-style-type: none"> ● There is a possibility that tokens may be issued in forms not necessarily envisaged by the J-Credit System, such as tokens without backing by J-Credits or tokens fractionalized into units smaller than the minimum trading unit of J-Credits.
(iv) Regulatory Issues (Report, pages 36–51)	<ul style="list-style-type: none"> ● Depending on the specific design, J-Credits generally can be tokenized without being classified as crypto-assets, electronic payment instruments, prepaid payment instruments, or securities. In principle, in these situations, businesses selling the relevant tokens are not considered subject to financial regulations or other regulatory requirements.
(v) Risks Related to Tokenization and Measures for Transaction Stability (Report, pages 52–59)	<ul style="list-style-type: none"> ● In view of the risks related to tokenization discussed in Section (iii) above, it is appropriate to place a prohibition or restriction on certain matters, depending on how tokenization is structured. At the same time, there are matters for which it is appropriate to mitigate risks by implementing measures such as structural design improvements (e.g., use of bankruptcy remoteness structure or use of trusts) and information disclosures. For details, please see Sections 3 and 4 of this Newsletter.
(vi) Survey Results on the Tokenization of Voluntary Credits (Report, pages 60–68)	<ul style="list-style-type: none"> ● A summary of the public consultations conducted by the respective managing organizations with regard to the tokenization of Verra and Gold Standard, which are types of voluntary credits (carbon credits other than J-Credits).
(vii) Existence and Details of Litigation and Other Proceedings Related to the Tokenization of Carbon Credits (Report, pages 69–79)	<ul style="list-style-type: none"> ● Although we searched for lawsuits and other proceedings in the Climate Change Litigation Database (a database compiled by Columbia Law School that collects domestic and international litigation related to climate change), no actual cases worth introducing were found.

⁴ In order to use J-Credits for carbon offsets or reporting under laws related to the promotion of global warming countermeasures and the rationalization of energy use and conversion to non-fossil energy, it is necessary to retire the carbon credits. However, under the J-Credit Scheme, this retirement is referred to as “invalidation.”

	<ul style="list-style-type: none"> ● An overview of the following two cases that occurred in Klima DAO in 2022: (i) a case in which tokens were presented as if they had economic value despite the inclusion of low-quality credits in their underlying assets, and (ii) a case in which retired credits were tokenized as TCO2 tokens.
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3. Risks related to the Tokenization of J-Credits

The Report introduces the following risks that may arise when J-Credits are tokenized, taking into account the current J-Credit System and the characteristics of tokens.

(1) Risk of J-Credits being transferred without transfer of the tokens (Report, page 52)

Since token holders are not considered to own the J-Credits themselves, but rather to hold claims against the J-Credit holder (registered owner), such as the right to request a change of name to the J-Credit holder (registered owner) and/or the right to request invalidation, even if the J-Credit holder (registered owner) transfers rights or provides security over the J-Credit without transferring the token, those acts would be deemed valid. Therefore, there is a risk that rights in J-Credits may be transferred or security interests over J-Credits may be established without transfer of the tokens, and that even if claims against the J-Credit holder (registered owner) are exercised, neither the change of name nor the invalidation of the J-Credit would be effected.

(2) Risk in the Event of Bankruptcy of the J-Credit Holder (Registered Owner) (Report, pages 52–53)

If the J-Credit holder (registered owner) goes bankrupt, the claims held by the token holder(s) against the J-Credit holder (registered owner) are considered to become bankruptcy claims (as defined in Article 2, Paragraph 5 of the Bankruptcy Act), rather than rights of segregation (Article 62) or rights of separate satisfaction (Article 2, Paragraph 9) under the Bankruptcy Act. In such a case, the J-Credits would be converted into cash by the bankruptcy trustee, and the token holders only would receive payments from the bankruptcy estate as bankruptcy creditors, in accordance with the ranking and amount of their bankruptcy claims. This means that token holders are considered to bear the credit risk of J-Credit holders (registered owners).

(3) Risk that tokens are not linked to J-Credits (Report, page 54)

Under the current system, there are no qualifications or requirements for tokenizing rights related to J-Credits, nor is there a prohibition on issuance of J-Credit tokens that are not backed by J-Credits. Therefore, there is a possibility that J-Credit tokens not backed by J-Credits may be issued (meaning that even if one acquires J-Credit tokens, they may not obtain any rights related to J-Credits).

(4) Risk of inadequate disclosure of information to transaction participants (Report, pages 54–56)

J-Credits and J-Credit tokens are deemed not to fall within the scope of financial regulations. Consequently, disclosure requirements applicable to securities and similar instruments do not apply. This creates a potential risk that substantial matters concerning the tokens, such as the rights represented by the tokens, are not clearly defined.

(5) Risk that tokens not anticipated by the system administrator may be issued (Report, pages 56–57)

- (i) The current system has no prohibition on tokenizing J-Credits after subdividing them into units smaller than the minimum transaction unit specified for J-Credits. In this situation, unless tokens equivalent to the

minimum transaction unit are held, token holders cannot request a transfer of title or invalidation of the J-Credit (including proxy invalidation).

- (ii) The current system does not prohibit the issuance of tokens backed by a pool comprised of J-Credits and other types of credits. However, concerns similar to those noted in item (i) may arise with respect to compliance with the minimum transaction unit requirement.
- (iii) The current system has no prohibition on tokenizing J-Credits prior to certification. However, this creates a potential issue, in that holders of those tokens would not be able to request a transfer of title or invalidation until certification is obtained. In addition, whether the J-Credits ultimately will be certified remains uncertain, and even if certification is granted, the process may take an extended period of time.
- (iv) The current system has no prohibition on tokenizing J-Credits that already have been invalidated. However, once a J-Credit has been invalidated, it is transferred to an 'invalidation account,' and any subsequent transfers are restricted. As a result, holders of those tokens will be unable to request a change of title or invalidation.

(6) Risk concerning the handling of rights upon termination of tokenization business (Report, pages 57–58)

The current system has no restrictions that prevent a tokenization service provider from withdrawing from the tokenization business; however, an unplanned withdrawal could adversely affect the rights of token holders.

(7) Risk that J-Credit holders (registered owners) may fail to fulfill obligations related to J-Credit Tokens (Report, page 58)

Token holders are considered to hold claims against the J-Credit holder (registered owner), such as the right to request a transfer of title and/or invalidation from J-Credit holder (registered owner). However, if a J-Credit holder (registered owner) fails to fulfill obligations related to J-Credit tokens after certification, there is a risk that the rights of token holders may not be realized.

4. Measures to Ensure Transaction Stability

The Report outlines possible measures to ensure transaction stability, in light of the risks associated with the tokenization of J-Credits discussed in Section 3 above.

Risk	Measures
(i) Risk of J-Credits being transferred without the transfer of tokens (Report, page 52)	<ul style="list-style-type: none"> ● Consider implementing certain measures that clearly indicate the existence of transfer restrictions on J-Credits. ● Consider revising the J-Credit System to prevent the transfer of tokenized J-Credits (i.e., implementing “immobilization” measures to avoid double issuance and double use).
(ii) Risk in the Event of Bankruptcy of the J-Credit Holder (Registered Owner) (Report, pages 52–53)	<ul style="list-style-type: none"> ● Consider establishing a structure that ensures bankruptcy remoteness through the use of vehicles such as trusts or special purpose companies (SPC).
(iii) Risk that tokens are not linked to J-Credits (Report, page 54)	<ul style="list-style-type: none"> ● Consider introducing external, third-party audits of tokenization service providers.
(iv) Risk of inadequate disclosure of information to transaction participants	<ul style="list-style-type: none"> ● Consider establishing a framework to require that certain information be provided when selling

(Report, pages 54–56)	J-Credit tokens, taking into account the content and methods of information disclosures used in the sale of securities and crypto assets.
(v) Risk of issuance of tokens not anticipated by the system administrator (Report, pages 56–57)	<ul style="list-style-type: none"> ● Requiring the consent of the system administrator for tokenization of J-Credits, and considering prohibiting or restricting the following actions: <ul style="list-style-type: none"> ➢ Issuing tokens by subdividing into smaller units; ➢ Issuing tokens by pooling J-Credits together with other credits; ➢ Tokenizing J-Credits before certification; and ➢ Tokenizing J-Credits after invalidation.
(vi) Risk concerning the settlement of rights upon termination of the tokenization business (Report, pages 57–58)	<ul style="list-style-type: none"> ● Requesting tokenization service providers to prepare an exit plan when terminating their tokenization businesses.
(vii) Risk that J-Credit holders (registered owners) may fail to fulfill obligations related to J-Credit tokens (Report, page 58)	<ul style="list-style-type: none"> ● Considering introducing a system under which a designated party can purchase J-Credits, on an obligatory basis, from the J-Credit holders (registered owners) who fail to fulfill their obligations. ● Considering introducing a system that allows holders of certified J-Credit tokens to exercise rights on behalf of J-Credit holders (registered owners) in certain circumstances.

5. Trends in international carbon credits and the tokenization thereof

Discussions are under way at UNIDROIT (International Institute for the Unification of Private Law), an international organization that seeks to harmonize private law, on drafting the 'UNIDROIT Principles on the Legal Nature of Verified Carbon Credits,'⁵ with the goal of clarifying the private law treatment of carbon credits.⁶ In the EU, proposals have been presented to allow the use of carbon credits from outside the EU,⁷ and increasing attention is being focused on leveraging carbon credits as one approach to achieving carbon neutrality. These international trends relating to carbon credits are expected to have a significant impact on the design of the J-Credit system, the progress of its tokenization, and related institutional arrangements; ongoing close monitoring is essential.

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⁵ At the time of writing, the latest version of the draft principles can be found at the following link:

<https://www.unidroit.org/wp-content/uploads/2025/09/Study-LXXXVI-W.G.6-Doc.-3-Draft-Principles-and-Commentary.pdf>

the Report also refers to UNIDROIT in footnotes 48 on page 16, 51 on page 17, and 59 on page 21

⁶ Please refer to Commentary 1.1 under Principle 1 of the draft principles for further details

⁷ https://climate.ec.europa.eu/eu-action/climate-strategies-targets/2040-climate-target_en?utm_source=chatgpt.com#next-steps