

Module	Anti-Money Laundering
Jurisdictions	Japan

Module Application

Does your organisation engage in financial transactions, cross-border exchanges, or activities that present potential risks of money laundering and terrorism financing (ML/FT)?

Does your organisation operate as a Specified Business Operator under Japanese law, including financial institutions, real estate brokers, dealers of precious metals and stones, attorneys, or other entities subject to AML regulations?

Does your organisation conduct foreign transactions or handle foreign exchange, requiring compliance with the Foreign Exchange and Foreign Trade regulations, including identity verification and risk-based compliance measures?

Does your organisation implement a risk-based approach to manage and mitigate ML/FT risks?

Module Scope

The module offers comprehensive guidance for organisations on fulfilling their obligations under Japan's key anti-money laundering and combating the financing of terrorism (AML/CFT) frameworks. This module addresses compliance with the Prevention of Transfer of Criminal Proceeds Act and the Foreign Exchange and Foreign Trade Act, ensuring organisations meet their responsibilities in risk assessment, customer due diligence, record-keeping, and suspicious transaction reporting. Additionally, organisations are guided on aligning their practices with the AML/CFT Guidelines issued by Japan's Financial Services Agency (FSA) to establish a proactive and risk-based compliance system.

Key requirements

Organisations operating within Japan must comply with the following primary obligations to effectively prevent and mitigate risks related to money laundering and terrorism financing:

➤ **Customer Due Diligence (CDD):**

- Verification of customer identity, including the purpose of transactions, occupation, assets, income, and risk assessment.
- Continuous monitoring and record-keeping of customer transactions and identification details.
- Risk-based assessment for identifying high-risk transactions and enhanced due diligence for higher-risk cases.

➤ **Suspicious Transaction Reporting (STR):**

- Reporting of any suspicious transactions to relevant authorities promptly upon identification of potential money laundering or terrorism financing activities.

➤ **Foreign Exchange and Foreign Trade Act:**

- Conduct due diligence for specified foreign exchange transactions, ensuring legality and adherence to obligations, such as identifying the source and nature of transactions.
- Compliance with any economic sanctions imposed by Japan's competent ministers for transactions impacting national security or international peace.

➤ **AML/CFT guidelines issued by the FSA:**

- Adoption of a risk-based approach (RBA) for assessing and managing ML/FT risks based on customer attributes, transaction profiles, geographic regions, and other risk factors.
- Active involvement of senior management in establishing and overseeing an effective compliance framework, including three lines of defence and employee training programs.

Key compliance practices:

- **Know Your Customer (KYC) and due diligence:** Ensure accurate identification of customers and periodic updates to customer profiles.
- **Record-keeping and reporting:** Maintain thorough records of customer transactions and identification measures for the specified period.
- **Monitoring of transactions:** Implement internal controls for monitoring transactions to detect and report suspicious activity in a timely manner.

Compliance sources

- Prevention of Transfer of Criminal Proceeds Act (Japan)
- Foreign Exchange and Foreign Trade Act (Japan)
- AML/CFT Guidelines (Financial Services Agency, Japan)
- Financial Action Task Force (FATF) Recommendations

Consequence of non-compliance

Non-compliance with Japan's AML/CFT regulations can result in:

- Specified Business Operators and other organisations face imprisonment, fines, or both for violations.
- Penalties for failing to meet reporting, verification, or on-site inspection obligations.
- Legal actions, reputational damage, and potential restrictions on business operations.

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