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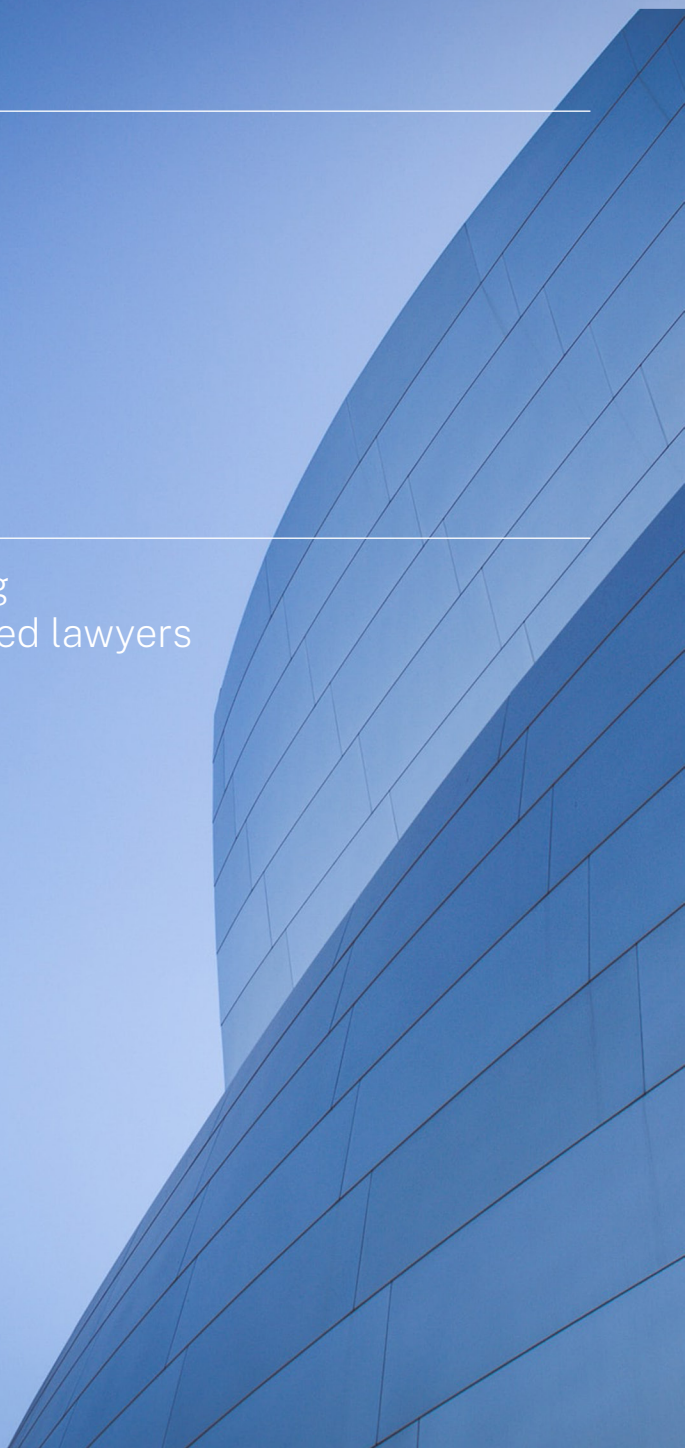

Trends and Developments

Contributed by:
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Nagashima Ohno & Tsunematsu

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Proposed Amendments to Stablecoin Legislation in Japan

Overview

On 1 June 2023, amendments to the Payment Services Act (PSA) came into effect, introducing a legal framework for the issuance and distribution of so-called stablecoins in Japan. Under the PSA, stablecoins are defined as *"electronic payment instruments"*. Despite this development, more than a year and a half after the amended PSA came into effect, there do not appear to be any examples of commercialised payment services using electronic payment instruments by Japanese companies in Japan. In September 2024, the Financial Services Agency (JFSA) convened an experts' panel, the Financial System Council's *"Working Group on Payment Services System, etc"*, to consider further amendments to the current stablecoin legislative regime, and this working group issued the report on 22 January 2025 (the *"2025 Report"*). Based on the 2025 Report, the government submitted the relevant bill to the National Diet in March 2025.

The following is an overview of the direction of these amendments, with a particular focus on the issuance of stablecoins. It should be noted that the explanation below is based on the results of discussions of the JFSA's experts' panel and the bill submitted by the government, and may differ from the final statutory provisions of the legislation to be determined based on future deliberations by the relevant government authorities, the National Diet, etc.

Revision of Trust Beneficiary Interest Stablecoins

Under the PSA, one category of electronic payment instruments is *"Trust Beneficiary Interest Stablecoin"*. Trust banks and trust companies may issue and redeem Trust Beneficiary Interest Stablecoins by submitting the necessary prior notification to the JFSA. The following is envisioned as the flow of payment services using Trust Beneficiary Interest Stablecoins.

- Issuance – an intermediary selling the Trust Beneficiary Interest Stablecoins to users will, as the trustor, entrust funds to the issuer and thereby acquire Trust Beneficiary Interest Stablecoins.
- Custody of funds – the issuer, acting as the trustee of the Trust Beneficiary Interest Stablecoins, must hold all entrusted funds in deposit form.
- User remittance – users wishing to remit funds pay the amount they wish to remit to the intermediary and receive Trust Beneficiary Interest Stablecoins in the equivalent amount.
- Transfer – the remitter transfers the received Trust Beneficiary Interest Stablecoins to the recipient.
- Redemption – recipients of Trust Beneficiary Interest Stablecoins can redeem them at face value upon request to the issuer.

Based on the custody of funds under the second bullet point above, under current law, issuers of Trust Beneficiary Interest Stablecoins are required to manage the entire amount of the funds accepted for the issuance in deposit form under a savings account. Additionally, when issuing yen-denominated Trust Beneficiary Interest Stablecoins, the entire amount of funds accepted from users must be maintained in yen-denominated demand deposits, among other requirements. When issuing Trust Beneficiary Interest Stablecoins denominated in a foreign currency, all funds accepted from users must be maintained in foreign currency-denominated demand deposits, among other requirements.

From a regulatory perspective, Trust Beneficiary Interest Stablecoins are excluded from

the definition of *"securities"* under the Financial Instruments and Exchange Act (FIEA) under the current law. Accordingly, the disclosure requirements under the FIEA do not apply to the issuance of Trust Beneficiary Interest Stablecoins. Furthermore, generally, registration as a financial instruments business operator under the FIEA is not required for trading Trust Beneficiary Interest Stablecoins.

The prospect of monetisation is a major business concern when entering the payment business, including the issuance of stablecoins. Given that the current law requires issuers of Trust Beneficiary Interest Stablecoins to maintain all funds received from users in deposit form, profitability for issuers is hindered. In light of this limitation, the government's ruling party established a Web3 project team to discuss amendments to the current legislative regime, and in April 2024, this team published the *"Web3 White Paper 2024"*. In the White Paper, as one of the *"issues to be immediately addressed for the promotion of Web3,"* it was proposed that consideration should be given as to whether to permit government bonds to be included in the trust assets of Trust Beneficiary Interest Stablecoins. The JFSA seems to pay attention to regulatory developments in foreign jurisdictions and the 2025 Report mentioned that similar regulatory developments in the United States and the European Union have permitted or proposed to permit the investment of backing assets for stablecoins in assets other than deposits, including government bonds.

In light of these domestic and international developments, the 2025 Report proposed the following revisions to the current legislative regime.

- Permit Trust Beneficiary Interest Stablecoins issuers to invest funds received from users in government bonds, which are considered to carry minimal credit, price volatility and liquidity risks.
- In relation to yen-denominated Trust Beneficiary Interest Stablecoins, issuers would be permitted to invest in short-term Japanese Government Bonds (JGBs) with a maturity of three months, which are considered to carry the lowest price volatility and liquidity risks. Moreover, even if the maturity of JGBs is a period longer than three months, provided that the remaining maturity at the time of investment is three months or less, they would also be permitted as investment targets given that they can be considered as carrying low price-volatility risk.
- When issuing foreign currency-denominated Trust Beneficiary Interest Stablecoins, in light of current needs, for the time being, issuers would be permitted to invest US dollar-denominated Trust Beneficiary Interest Stablecoins only in US Treasury bonds. In this case, as in the case of yen-denominated Trust Beneficiary Interest Stablecoins, US Treasury bonds with a maturity and remaining period of three months or less would be accepted.
- Depending on the ratio of JGBs, the maximum ratio of JGBs would be set at 50% to mitigate the high risk of not being able to redeem JGBs promptly and reliably in the event of simultaneous redemption requests due to credit concerns over electronic payment instruments.
- On the other hand, if the price of the underlying asset (JGBs) falls due to market conditions, the issuer would be obligated to contribute an equivalent amount of additional trust funds to ensure prompt and full redemption.

If such amendments are introduced, Trust Beneficiary Interest Stablecoins issuers will be able to invest a portion of the funds received from users in government bonds, potentially leading to improved profitability compared to the case in which funds are managed only through deposits.

On the other hand, the proposed requirement that issuers contribute additional trust assets (see the last bullet point above) may necessitate the introduction of additional mechanisms to ensure its effectiveness. Some members of the experts' panel suggested the introduction of mechanisms such as a guarantee and a daily valuation of trust assets. Depending on the final statutory provisions of the legislation to ensure the effectiveness of the obligation to contribute additional trust assets, issuers' operations may be impacted. Therefore, the future discussions should be closely monitored.

In addition, as mentioned above, under the current law, Trust Beneficiary Interest Stablecoins are excluded from the definition of *"securities"* under the FIEA. However, no direction has been given at this time as to whether Trust Beneficiary Interest Stablecoins incorporating government bonds, which are *"securities"*, would be excluded from the definition of *"securities"* under the FIEA. If Trust Beneficiary Interest Stablecoins were to constitute *"securities"* under the FIEA, issuers and intermediaries trading Trust Beneficiary Interest Stablecoins would be subject to compliance obligations under the FIEA, which could affect their operations and related licence.

Furthermore, the accounting and tax treatment of Trust Beneficiary Interest Stablecoins that incorporate government bonds is expected to be discussed by the relevant authorities and organisations in the future. Therefore, these discussions should also be closely monitored.

Issuance of "electronic payment instruments" by banks

Although banks are not explicitly legally prohibited from issuing electronic payment instruments (other than Trust Beneficiary Interest Stablecoins), the JFSA has, generally, not permitted banks to issue them. The JFSA has explained that the purpose of this is to ensure that banks' involvement in permissionless blockchain-based stablecoin is carefully considered in light of international indications that such involvement may be incompatible with the prudent management of banks' business operations.

However, this does not preclude banks from issuing tokens for fund transfer (ie, *"tokenised deposits"*). While banks are not permitted to issue stablecoins using permissionless blockchains, they are permitted to issue tokenised deposits if such tokens can only be transferred among identified users and the issuer (the bank, in this case) is involved in the transfer process.

In light of this current situation, the JFSA discussed whether banks should be allowed to issue electronic payment instruments.

However, permitting banks to issue electronic payment instruments would effectively allow them to incur on-demand liabilities, which are different from deposit obligations. Therefore, it would be essential to carefully consider the impact of this on the soundness of banks and the financial system from various perspectives. The experts' panel expressed the opinion that it is necessary to consider the impact of permitting banks to issue electronic payment instruments on their soundness and the financial system from a variety of perspectives. The panel also expressed the opinion that if banks were to issue electronic payment instruments that are different from deposits, it would necessitate the design

and implementation of detailed mechanisms to address safeguarding funds received from users in a manner different from existing deposit insurance mechanisms.

Based on these considerations, the 2025 Report concluded that it is unnecessary to permit the issuance of electronic payment instruments by banks in the near future.

Authorised Self-Regulatory Organisation for Electronic Payment Instruments Services - JVCEA

On 25 October 2024, the JFSA approved the Japan Virtual and Crypto-Assets Exchange Association (JVCEA) as a certified association for payment service providers for the electronic payment instruments services in accordance with Article 87 of the PSA.

As mentioned above, it is assumed that stablecoins can be transferred and distributed among users in a rolling manner, and there is a regulatory licence for electronic payment instruments services (Article 62-3, Paragraph 2, Article 10 of the PSA).

Stablecoin is treated as an *"electronic payment instrument"* under the PSA, and the related services cover the following activities as a business:

- purchase and sale of an electronic payment instrument or exchange with another electronic payment instrument;
- intermediary, brokerage or agency services for the activities set forth in the preceding item; or
- management of electronic payment instruments on behalf of another person (subject to certain exemptions).

In other words, registration as an electronic payment instrument service provider is required for the purposes of engaging in business such as purchasing, selling and managing stablecoin, which is an electronic payment instrument. In order to obtain registration as an electronic payment instrument service provider, entities must satisfy certain requirements under the PSA and JFSA guidelines, particularly in the areas of user protection, AML/CFT, and system risk management.

Additionally, it is important for electronic payment instrument service providers to comply with the self-regulatory rules of the certified association for payment service providers under the PSA. As mentioned above, the JFSA has accredited the JVCEA as a certified association for payment service providers for the electronic payment instrument service.

To register as an electronic payment instrument service provider, entities must either join the JVCEA or establish internal rules equivalent to the JVCEA's articles of incorporation or other rules and establish systems to ensure compliance (Article 62-6, Paragraph 1, Item 6 of the PSA). However, there are certain important rules not expressly stated in the PSA or JFSA guidelines, such as the requirement that stablecoins must have undergone a preliminary review by the JVCEA before an electronic payment instrument service provider can offer stablecoins as a means of electronic payment.

As of the date of this article, no entity has obtained registration as an electronic payment instrument service provider. However, with JVCEA's recognition as a self-regulatory organisation, the registration process is expected to proceed more smoothly in the future. Regulatory preparations are steadily being made not only for

regulatory licences related to issuance, but also for licences related to intermediation.

Regulatory Trends in Cross-Border Collection Agency

Any person engaging in *"exchange transactions"* as a business in Japan is required to obtain a licence such as a banking business licence under the Banking Act of Japan, or register as a fund transfer business under the PSA. Although the Supreme Court has handed down a decision regarding the definition of *"exchange transactions"*, its scope remains unclear, which makes it difficult to definitively determine whether a particular service constitutes a regulated fund transfer service.

In relation to collection agencies receiving payments from payers on behalf of creditors, the Financial System Council's *"Working Group on Regulations for Payment Services Providers and One-Stop Financial Services Brokers"* issued a report on 20 December 2019 (the *"2019 Report"*) that made certain clarifications. The PSA and the Cabinet Office Order on Funds Transfer Service Providers stipulate that transactions in which certain collection agencies provide services where the creditor is an individual and which satisfy certain requirements constitute *"exchange transactions"*. However, it remains unclear whether a particular service of other collection agency services constitutes a regulated fund transfer service. The 2019 Report clarified that, if such collection agency services meet certain requirements, they may not necessarily be subject to the regulations applicable to *"exchange transactions"*.

However, concerns remain that cross-border collection agencies may be involved in illegal activities or may cause issues to arise from an AML/CFT perspective. In this regard, the Financial System Council's *"Working Group on Payment Services System, etc"*, issued the 2025 Report discussing the regulatory approach to these cross-border collection agencies. The 2025 Report, however, does not take the view that all cross-border collection agencies' services should be regulated as *"exchange transactions"* services. Instead, it states that *"cross-border collection agency services provided by a person who is involved in creating the underlying monetary claim"* and *"escrow services"* provided by platforms and others that fulfil certain requirements may not be immediately subject to the regulation. In addition, the 2025 Report also argued that *"cross-border collection agency services provided by a person who is not involved in creating the underlying monetary claim"* is not necessarily required to be immediately subject to the regulation if the cross-border collection agency service is provided by a person who is deemed economically integrated with the receiver or if it is subject to regulation under other laws or ordinances. Conversely, it is believed that other *"cross-border collection agency services performed by a person who is not involved in creating the underlying monetary claim"*, should essentially be subject to the regulations applicable to *"exchange transactions"* services. Based on the argument in the 2025 Report, a key point is whether the person who acts as a cross-border collection agency is involved in the transaction that creates the underlying monetary claim for which the person acts as a cross-border collection agency. For example, if a person who is not involved in the transaction that creates the underlying monetary claim is entrusted only to receive payment for the transaction, and the payment from the payer to the receiver is a cross-border payment, it is likely to be subject to the regulations applicable to *"exchange transactions"* services and may require a licence such

as a banking business licence or fund transfer business registration.

Based on the 2025 Report, the government submitted the relevant bill to the National Diet in March 2025. Since it is likely that regulations or guidelines governing cross-border collection agencies are expected to be established, future regulatory developments in this regard should be closely monitored. According to the 2025 Report, there is no particular change to the argument detailed in the 2019 Report with respect to domestic collection agencies. Therefore, it appears that the previous argument will likely be adopted with respect to non-cross-border collection agencies. However, it is expected that regulations on *"exchange transactions"*, including collection agencies services, will continue to be discussed. As a result, these regulatory developments should also be closely monitored.

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