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FINANCIAL
PROFESSIONALS

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CASH AND TREASURY MANAGEMENT COUNTRY REPORT

JAPAN

Executive Summary

Banking

The Japanese central bank is the Bank of Japan (BOJ). Bank supervision is performed by the Financial Services Agency (FSA).

Japan does apply some central bank reporting requirements. These are managed by the Ministry of Finance (MOF) through the BOJ, according to the rules set out in the Foreign Exchange and Foreign Trade Law and relevant regulations.

Resident entities are permitted to hold fully convertible foreign currency bank accounts domestically and outside Japan. Non-resident entities are permitted to hold fully convertible domestic and foreign currency bank accounts within Japan.

Japan has four large city banks and a decreasing number of regional banks (64), which are divided into first and second tiers generally according to size and assets. There is a significant foreign banking presence in Japan: 56 foreign banks have established 77 branches in Japan.

Payments

Japan's four main interbank payment clearing systems are BOJ-NET, FXYCS, Zengin and the BCCS. In addition, there are seven Japanese banks that are Settlement Members of CLS Bank.

The most important cashless payment instruments in Japan are electronic credit transfers in terms of value and, in terms of volume, electronic-money and payment cards. Checks are primarily used for business-to-business transactions, while direct debits are widely used among individuals and businesses to make regular payments. Though the Japanese have been slower to adopt credit and debit cards, their usage, particularly of credit cards, is increasing rapidly.

Liquidity Management

Japanese-based companies have access to a variety of short-term funding alternatives. There is also a range of short-term investment instruments available.

Cash concentration is the more common technique used by Japanese companies to manage company and group liquidity. Of the available techniques, zero-balancing, though not as frequently used as in comparable countries, is the most commonly used.

Notional pooling is available in Japan. However, it is not often used, primarily because the tax implications for it are unclear and can make notional pooling too complicated.

Trade Finance

Japan is a member of the Asia-Pacific Economic Cooperation (APEC), the World Trade Organization (WTO) and a dialogue partner with the Association of Southeast Nations (ASEAN). Japan has signed free trade agreements (FTAs) with Australia, Brunei, Chile, India, Indonesia, Malaysia, Mexico, Mongolia, Peru, the Philippines, Singapore, Switzerland, Thailand and Vietnam. Japan is currently negotiating FTAs with Canada, China, Colombia, the EU, the GCC, the Republic of Korea and Turkey.

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PNC's International Services

PNC can bring together treasury management, foreign exchange, trade finance and credit capabilities to support your international needs in a coordinated and collaborative way.

International Funds Transfers

International Funds Transfers to over 130 countries in USD and foreign currency can be accessed through PINACLE®, PNC's top-rated, online corporate banking portal.

Multicurrency Accounts

Set up demand deposit accounts that hold foreign currency instead of U.S. dollars. These accounts offer a simple and integrated way to manage and move money denominated in more than 30 currencies, including offshore Chinese Renminbi. You can easily view deposit and withdrawal details through PINACLE.

PNC Bank Canada Branch ("PNC Canada")

PNC Bank, through its full service branch in Canada, can help you succeed in this important market. PNC Canada offers a full suite of products including payables, receivables, lending, and specialized financing to help streamline cross border operations.

Multibank Services

PNC's Multibank Services provide you with balances and activity for all your accounts held with PNC and other financial institutions around the world. PINACLE's Information Reporting module can give you a quick snapshot of your international cash position, including USD equivalent value, using indicative exchange rates for all your account balances. You can also initiate Multibank Transfer Requests (MT101s), and reduce the time and expense associated with subscribing to a number of balance reporting and transaction systems.

Establish accounts in foreign countries

Establishing good banking relationships in the countries where you do business can simplify your international transactions. PNC offers two service models to help you open and manage accounts at other banks in countries outside the United States.

- PNC Gateway Direct comprises an increasing number of banks located in many European countries and parts of Latin America. PNC's team will serve as a

point of contact for setting up the account helping with any language and time barriers and will continue to serve as an intermediary between you and the bank you select. You can access reporting and make transfers via PINACLE.

- PNC's Gateway Referral service can connect you to a correspondent banking network that comprises more than 1,200 relationships in 115 countries.

Foreign Exchange Risk Management

PNC's senior foreign exchange consultants can help you develop a risk management strategy to mitigate the risk of exchange rate swings so you can more effectively secure pricing and costs, potentially increasing profits and reducing expenses.

Trade Services

PNC's Import, Export, and Standby Letters of Credit can deliver security and convenience, along with the backing of an institution with unique strengths in the international banking arena. PNC also provides Documentary Collections services to both importers and exporters, helping to reduce payment risk and control the exchange of shipping documents. We assign an experienced international trade expert to each account, so you always know your contact at PNC and receive best-in-class service. And PNC delivers it all to your computer through advanced technology, resulting in fast and efficient transaction initiation and tracking.

Trade Finance

For more than 30 years, PNC has worked with the Export-Import Bank of the United States (Ex-Im Bank) and consistently ranks as a top originator of loans backed by the Ex-Im Bank both by dollar volume and number of transactions.¹

Economic Updates

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(1) Information compiled from Freedom of Information Act resources.

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Financial Environment

Country Information

Geographical Information

Capital	Tokyo
Area	377,915 km ²
Population	127.1 million
Official language	Japanese
Political leaders	Head of state — Emperor Akihito (since January 7, 1989) Head of government — Shinzo Abe (since December 26, 2012)

Business Information

Currency (+ SWIFT code)	Yen (JPY)
Business/Banking hours	Business hours: 09:00–17:00 (Mon–Fri) Banking hours: 09:00–15:00 (Mon–Fri), 09:00–12:00 (Sat)
Bank holidays	2018 – December 24, 31. 2019 – January 1-3, 14, February 11, March 21, April 29, May 3, 4, 6, July 15, August 12, September 16, 23, October 14, November 4, 23, December 23, 31. 2020 – January 1-3, 8, February 12, March 21, April 30, May 3, 4, 5, July 16, September 17, 24, October 8, November 3, 23, December 24, 31. Source: www.goodbusinessday.com .
International dialing code	+ 81

Country Credit Rating

FitchRatings last rated Japan on April 25, 2018 for issuer default as:-

Term	Issuer Default Rating
Short	F1
Long	A
Long-term rating outlook	Stable

Source: www.fitchratings.com, November 2018.

Economic Statistics

Economics Table

		2012	2013	2014	2015	2016
GDP per capita	(USD)	46,834	38,928	36,450	NA	38,586
GDP	(JPY trillion)	475	482	490	NA	537
GDP	(USD billion)	5,955	4,943	4,621	NA	4,939
GDP volume growth*	(%)	+ 1.7	+ 1.4	- 0.1	+ 0.6	+ 1.0
BoP (goods, services & income) as % GDP		1.3	1.1	1.2	NA	4.2
Consumer inflation*	(%)	Ø	+ 0.4	+ 2.7	+ 0.8	- 0.1
Population	(million)	127	127	127	127	128
Unemployment	(%)	4.4	4.0	3.6	3.4	3.1
Interest rate (local currency MMR)[†] (%)		0.083	0.075	0.068	0.073	- 0.03
Exchange rate[‡]	(JPY per USD)[†]	79.790	97.596	105.945	121.044	108.79

		2017		2018		
		Q4	Year	Q1	Q2	Q3
GDP per capita	(USD)	-	NA	-	-	-
GDP	(JPY trillion)	-	NA	-	-	-
GDP	(USD billion)	-	NA	-	-	-
GDP volume growth*	(%)	NA	NA	NA	NA	NA
BoP (goods, services & income) as % GDP		-	NA	-	-	-
Consumer inflation*	(%)	+ 0.6	+ 0.5	+ 1.3	+ 0.6	+ 1.1
Population	(million)	-	127	-	-	-
Unemployment	(%)	2.6	2.8	2.5	NA	NA
Interest rate (local currency MMR)[†] (%)		NA	- 0.05	NA	NA	NA
Exchange rate[‡]	(JPY per USD)[†]	112.967	112.166	108.225	109.083	111.474

*Year on year. †Period average. ‡Market rate.

Source: *International Financial Statistics*, IMF, November 2018 and 2018 Yearbook; and World Trade Organization.

Sectoral Contribution as a % of GDP

Agriculture - 1.0%

Industry - 29.7%

Services - 69.3% (2017 estimate)

Major Export Markets

USA (19.4%), China (19.0%), South Korea (7.6%), Hong Kong (5.1%), Thailand (4.2%)

Major Import Sources

China (24.5%), USA (11.0%), Australia (5.8%), South Korea (4.2%), Saudi Arabia (4.1%)

Political and Economic Background

Economics

Interest Rate Management Policy

Japan's benchmark interest rates are set through the BOJ. Its main objective is to maintain price stability, as measured by the consumer price index. Benchmark interest rates are set by the policy board of the BOJ, which meets once or twice monthly. The policy board's independence from the government is guaranteed by the Bank of Japan Law (revised 1998). The BOJ has responsibility for the official discount rate (ODR), the money market rates, and the zaito rate, or Japanese government bond (JGB) benchmark rate.

In 2013, the BOJ launched a policy of "quantitative easing" that was further extended in 2014. In January 2016, the BOJ adopted a negative interest rate policy, applying a rate of -0.1%, aimed at achieving the government's 2% inflation target. The BOJ left the key interest rate unchanged at -0.1% at its October 2018 meeting and removed its timeframe for hitting its inflation target of 2%.

Foreign Exchange Rate Management Policy

Japan's exchange rate is free floating, determined freely in the foreign exchange market against all major currencies. The BOJ may intervene in the market to keep exchange rates consistent with official policy and to counteract speculation. To this end, it works closely with the Ministry of Finance (MOF). The Japanese Bankers' Association compiles the Tokyo interbank offered rate (Tibor) for the commercial lending rate regarding the JPY, Euroyen and Eurodollar.

Major Economic Issues

Japan's economy contracted 1.2% in Q3 following a 3.0% expansion in Q2. Exports fell 1.8%, the biggest fall for three years while private consumption, accounting for 60% of GDP, fell 0.1%. In October, the BOJ downgraded inflation and economic growth forecasts through fiscal 2020 and highlighted the economic impact of global risks, including the UK's withdrawal from the EU and the US trade dispute with China. Exports to China fell in September, the first time in seven months. Typhoon Jebi also played a part in the fall in exports.

Domestically, companies face acute labor shortages (the unemployment rate stood at 2.3% in September 2018), which will dampen growth long term. In addition, the country's workforce is facing increased economic pressure to provide for both young and old. The elderly (over 65) make up over a quarter of the country's population, with forecasts suggesting the proportion of elderly people will reach 45% by 2050. Compounding the economic strain this will place on Japan, the number of children in Japan is at a record low of 15.7 million, down 170,000 from 2015. It is predicted the population could fall to 98 million (from 127 million) by 2050.

To tackle the problem of both an aging and shrinking population, Prime Minister Abe has introduced policies to curb excessive working hours and provide more care facilities for children

and the aged. He has also relaxed some of the restrictions on foreigners wishing to live and work in the country. In November, the government voted to allow more foreign workers in to the country. The government is considering limiting the issuance of visas to 14 industries facing severe labor shortages, such as the construction, farming and restaurant sectors. The increased financial costs of servicing the country's aging population and associated medical care has raised budgetary issues for 2018; the government is committed to a JPY 2 trillion economic package, with priority for education and child care. In part to fund the growing medical costs for the country's rapidly aging population, in October 2018, Shinzo Abe announced plans to raise sales tax in 2019. The consumption tax will rise two percentage points to 10% from October next year.

Japan has the largest public debt relative to the size of its economy in the world (253% of GDP at the end of 2017). The government has approved a long-term economic policy plan that calls for a delay in its goal of achieving a primary budget balance by five years to 2025.

Politics

Government Structure

Political power is divided between the upper House of Councilors (Sangi-in) and the more powerful lower House of Representatives (Shugi-in) in the National Diet (Kokkai) under the terms of the Constitution of Japan.

The modern national government has been based in Tokyo since 1947.

There are 47 regional prefectures (including one metropolitan district – Tokyo), within which there are also local municipal and district councils.

The Emperor is the head of state, but exercises limited power under the constitutional monarchy.

Executive

At national level, the Diet is headed by the prime minister, who is selected by the Diet. The prime minister forms a government and appoints the cabinet, which must comprise a majority of its ministers from the Diet.

The current administration is headed by Prime Minister Shinzo Abe of the Liberal Democratic Party (LDP). The main opposition party is the Democratic Party of Japan (DPJ).

Legislature

At national level, the legislature has two houses.

The 242-member House of Councilors is elected either through multi-seat constituencies or proportional representation. Members of the House of Councilors serve six-year terms and elections for one half of the seats are held every three years, the most recent being in July 2013. The next elections are due to be held in July 2019.

The 480-member House of Representatives is elected by a combination of single-seat constituencies (300 seats) and proportional representation (180), in which the country is broken

down into 11 electoral voting blocs. Voters cast one ballot for an individual candidate in the single-seat constituency, and one for a political party in the proportional representation election. Elections to the House of Representatives must be held at least every four years.

The next round of elections must be held by December 2018.

International memberships

Japan is a member of the Asia-Pacific Economic Cooperation (APEC) and a dialogue partner with the Association of Southeast Nations (ASEAN). It is also a member of the Organisation for Economic Cooperation and Development (OECD), the International Monetary Fund, the Bank for International Settlements, and the World Trade Organization.

Major Political Issues

Prime Minister Abe was re-elected to office on November 1, 2017, after his LDP administration retained its large parliamentary majority in recent elections. The election results provides the government with a fresh mandate to further pursue economic reform (notably policies to address the country's aging population and low birthrate) and to potentially revise the country's post-war constitution. Mr. Abe was re-elected LDP president for the third time in September 2018.

Geopolitically, Japan is in dispute with China over ownership of the uninhabited Senkaku islands; since Abe's reelection, a number of nationalist politicians have been appointed to key positions, indicating the Japan's reluctance to take a conciliatory approach in its international diplomacy. (In March 2016, a controversial new law came into force that will allow Japan's defense forces to fight overseas, the first time this has been allowed since 1945.) However, in September, Shinzo Abe visited China for the first bilateral summits with Chinese leaders since 2011. The two countries have agreed to boost their economic ties (over 500 deals with a total value of more than USD 2.6 billion were signed during the visit), and promote free trade.

In addition to boosting economic ties with China, Japan has stepped up its defense and economic cooperation with India. As China has expanded its influence in the region, Japan has sought to expand its military cooperation beyond the relationship it enjoys with the USA, and has tightened its relations with other Asia-Pacific nations. In October, India and Japan signed a USD 75 billion bilateral currency swap agreement and signed an agreement for the second-phase of a Japanese super-express railway project in India.

As a result of the meeting between North and South Korea in April 2018, it is suggested that North Korea is looking to 'normalize' relations Japan. If North Korea delivers practical plans to abandon its nuclear and missile programs and move toward denuclearization.

Prime Minister Abe has laid out a clear timetable for the revision of the country's pacifist constitution, marking 2020 as the year the revised constitution will come into effect. Any change to the constitution requires a two-thirds majority in both houses of parliament as well as a majority of public support in a national referendum. Constitutional change is a divisive topic within Japan, and, despite the government's strong public support, recent polls suggest a majority is against any such change.

Taxation

Resident/Non-resident

A company whose principal office or head office is located in Japan is considered to be a Japanese resident, unless it is regarded as resident in another country under a Japanese double tax treaty. Local management is not required.

Tax Authority

National Tax Agency (NTA).

Tax Year/Filing

A corporation selects its fiscal year when it begins operations in Japan. The accounting period must not exceed 12 months. A branch's tax year generally is the same as the tax year of its head office.

Companies must file a national and local corporation tax return within two months of the end of their accounting period; however, a one-month extension may be available.

Companies may file either a blue or a white return. The blue return carries a wide range of privileges, such as deductions, including tax loss carryforwards and accelerated depreciation. To use this form, firms must apply before the beginning of the applicable tax year and must meet certain requirements in relation to their accounting systems and recordkeeping.

Companies must file interim returns within two months of the end of the first six months of each fiscal period, paying estimated tax on the basis of the income reported in the interim return. The estimated tax paid with the interim return may be either (i) one-half of the total tax paid in the previous taxable year, or (ii) the tax due on income resulting from the actual results of the first six months.

A Japanese domestic parent corporation and its 100% owned domestic subsidiaries may elect to file a consolidated tax return for national tax purposes only, i.e. local taxation is calculated on a stand-alone basis. Once such a group has been approved to enter into the consolidated tax regime, in principle, the group cannot voluntarily revoke this status.

Consolidated taxable income is calculated for the consolidated group as a single tax unit, by aggregating the separate taxable income of each subsidiary in the group and applying necessary adjustments.

Consolidated tax liability is calculated based on consolidated taxable income multiplied by the applicable tax rate, adjusted for various tax credits. The group's consolidated tax liability is allocated to the individual corporations in the group based on the taxable income or loss of each corporation.

In principle, when forming/joining the consolidated group, existing subsidiaries are subject to the mark-to-market rule, and the separate return limitation year rule (under which a subsidiary's NOLs incurred before joining the group can be carried forward and offset only against its own taxable income). There are some exceptions to these rules for subsidiaries held for more than five years and subsidiaries that meet certain requirements.

Corporate Taxation

A resident corporation is taxed on its worldwide income; a foreign corporation generally is taxed only on certain Japan-source income. The corporate tax rate for a branch is the same as for a subsidiary.

The national standard corporation tax rate of 23.4% (23.2% for fiscal years starting on or after April 1, 2018) applies to ordinary corporations with share capital exceeding JPY 100 million.

Companies also must pay local inhabitants tax, which varies with the location and size of the firm. The inhabitants tax, charged by both prefectures and municipalities, is comprised of the corporation tax levy (levied as a percentage of national corporation tax) and a per capita levy (determined based on capital and the number of employees).

The local enterprise tax, another tax imposed by the prefectures, is classified as an income-based and factor-based tax. The factor-based enterprise tax has three components: progressive rates of up to 3.6% of taxable profits, 1.2% of a 'value-added' factor and 0.5% of share capital and capital surplus.

The effective tax rate for corporations (inclusive of the inhabitants and local enterprise taxes), based upon the maximum rates applicable in Tokyo to a company whose paid-in capital is over JPY 100 million, is approximately 30%.

There is no alternative minimum tax.

A 2.1% surtax applies on the withholding tax for certain Japan-source income.

Dividends received by a resident corporation from another resident corporation are entirely excluded from taxable income for corporation tax purposes if the recipient holds 100% of the dividend-paying corporation for a certain period. If a corporation owns 33.3% or more of the shares in a dividend-paying corporation for at least six months before the date when the right to receive a dividend is determined, the dividend (less the dividend-receiving resident corporation's interest expense allocated to the dividend) would be excluded from taxable income. If a corporation holds less than 33.3% of the shares, or holds 33.3% or more but for less than six months before the dividend determination, 50% of the dividend (less the dividend-receiving resident corporation's interest expense allocated to the dividend) is excluded from taxable income.

Japanese companies are able to effectively exclude 95% of foreign dividends received from their tax calculation. However, there is no longer foreign tax credit relief. In order to qualify for the exemption, the Japanese company must have held at least 25% of the shares of the foreign entity paying the dividend for at least six months prior to the dividend declaration date.

Only 55% of a company's taxable income (50% for fiscal years starting on or after April 1, 2018) may be offset by net operating losses (NOLs). Small and medium-sized enterprises (SMEs) with share capital of not more than JPY 100 million are exempt from the NOL restrictions, unless the SMEs are owned by a large corporation. NOL carryforwards may be further restricted in certain situations, including a change of ownership of more than 50% in connection with a discontinuation of an old business and commencement of a new business.

The NOL carryforward period is ten years for NOLs incurred during fiscal years ended on or after April 1, 2018. SMEs may carry back losses for one year.

Various tax credits are available, including an R&D credit.

There is a tax incentive for investment in productivity improving assets (PIAs), which are depreciable assets that are directly used for production, sales or service provision activities or other revenue-producing activities conducted by companies. PIAs do not include assets used in head office or back office functions. Under this incentive, taxpayers may take special depreciation or a tax credit for investments in PIAs if certain requirements are met.

Other tax incentives are available for increasing wages and salaries (for fiscal years starting between April 1, 2013, and March 1, 2018), and for creating additional new employment (effective until March 31, 2018). However, only one of these two salary growth/job creation credits may be claimed in a fiscal period.

Special tax incentives have been introduced for qualified companies doing business in designated regions/zones.

Advance Tax Ruling Availability

Japan has a limited advance ruling system. Written rulings generally are available to the public and the availability of a ruling is subject to certain restrictions (e.g. no hypothetical cases).

Withholding Tax (Subject to Tax Treaties)

Payments to:	Interest	Dividends	Royalties	Other income	Branch Remittances
Resident companies	0%/20%*	7%/20%**	None	None***	NA
Non-resident companies ***	15.315% or 20.42%	15.315% or 20.42%	20.42%	20.42%	None

* Interest on loans is not subject to withholding tax.

** The 20% rate applies to dividends from unlisted shares. Dividends from listed shares received by companies are subject to withholding tax at 7%.

*** Up to December 31, 2012 the withholding rates were generally 20% (15% on bonds and deposits) on payments to non-residents. From January 1, 2013 to December 31, 2037, an additional special reconstruction income tax of 2.1% is applicable to the withholding tax levied on certain payments made by Japanese companies to non-residents. This increases the withholding tax rate on dividends, loan interest, royalties or technical service fees paid to a non-resident to e.g. 20.42% (i.e. 20% + (20% x 2.1%)). If a reduced withholding tax rate or exemption is available under a tax treaty, that treaty rate is unchanged (see below).

Tax Treaties / Tax Information Exchange Agreements (TIEAs)

Japan has exchange of information relationships with 79 jurisdictions through 68 double tax treaties and 11 TIEAs (www.eoi-tax.org, August 2018).

On January 27, 2016, Japan, as part of the OECD/G20 Base Erosion and Profit Shift (BEPS) initiative, signed a multilateral co-operation agreement (“the MCAA”). Under this multilateral

agreement, information will be exchanged between tax administrations, giving them a single, global picture on some key indicators of economic activity within multinational enterprises (MNE).

With Country-by-Country reporting tax administrations of jurisdictions where a company operates will have aggregate information annually relating to the global allocation of income and taxes paid, together with other indicators of the location of economic activity within the MNE group. It will also cover information about which entities do business in a particular jurisdiction and the business activities each entity engages in. The information will be collected by the country of residence of the MNE group, and will then be exchanged through exchange of information supported by such agreements as the MCAA. First exchanges under the MCAA will start in 2017-2018 on 2016 information.

Transfer Pricing

The prices of goods and services exchanged between internationally affiliated entities must be consistent with arm's length principles. Internationally affiliated entities are defined, among others, as those with a relationship consisting of a direct or indirect foreign shareholding of 50% or more, or a "control in substance" relationship. The burden is on the taxpayer to demonstrate that the pricing is reasonable. Failure to do so may give rise to a transfer pricing adjustment, at the discretion of the tax authorities.

Advance pricing agreements on the reasonableness of the taxpayer's methodology and results may be obtained from the tax authorities.

Japan has adopted a three-tiered approach to transfer pricing documentation – country-by-country (CbC) reporting, a master file and a local file – which is consistent with action 13 of the OECD BEPS project. The new rules apply for fiscal years beginning on or after April 1, 2016 for CbC reporting and master file purposes, and for fiscal years beginning on or after April 1, 2017 for local file purposes. A 'Notification for Ultimate Parent Entity' must be submitted for fiscal years beginning on or after April 1, 2016.

Thin Capitalization

Japan's thin capitalization rule primarily restricts the deductibility of interest payable (including certain guarantee fees) by a Japanese corporation, and a foreign corporation liable to pay corporation tax in Japan, to its foreign controlling shareholder (or certain third parties) if the interest is not subject to Japanese tax in the hands of the recipient. A foreign controlling shareholder is defined as a foreign corporation or non-resident individual that:

- directly or indirectly owns 50% or more of the total outstanding shares of the Japanese corporation (i.e. a parent-subsidiary relationship);
- is a foreign corporation in which 50% or more of the total outstanding shares are directly or indirectly owned by the same shareholder that directly or indirectly owns 50% or more of the shares of the relevant Japanese entity (i.e. brother-sister relationship); or

- otherwise exercises control over the Japanese entity.

This rule also is applicable in situations involving certain third parties, including situations where:

- a third party provides a loan to the Japanese entity that is funded by a back-to-back loan arrangement with the foreign controlling shareholder;
- a third party provides a loan to the Japanese entity that is guaranteed by a foreign controlling shareholder; or
- a third party provides a loan to the Japanese entity based on arrangements involving bonds and certain repo transactions.

There is a debt-to-equity safe harbor ratio of 3:1 (2:1 for certain repo transactions). This effectively means that there will be a restriction only if the debt from the foreign controlling shareholder (or specified third party) exceeds three times the amount of net equity the shareholder/third party owns and the total debt exceeds three times the equity. In such a situation, interest expenses calculated on the excess debt are treated as non-deductible expenses for Japanese corporate income tax purposes. If the taxpayer can demonstrate the existence of comparable Japanese corporations that have a higher debt-to-equity ratio, that higher ratio may be used.

Controlled Foreign Companies

For Japanese tax purposes, a CFC may include any non-Japanese company that has an effective tax rate of less than 20%, if the company is more than 50% controlled, directly or indirectly, by Japanese shareholders. A CFC is considered “controlled” by Japanese shareholders where Japanese shareholders own directly or indirectly more than 50% of the outstanding shares.

Japanese companies that hold (together with their associated persons) 10% or more of the outstanding shares of a CFC must report their share of the taxable profits of the CFC on a current basis. When a company is classified as a CFC, the Japanese company generally is taxed on the taxable profits of the CFC on a pro rata basis corresponding to its shareholding. The CFC rules may be waived if a foreign subsidiary has fixed facilities engaged in business in the foreign country and conducts business activities in that country. Even if a CFC satisfies the above conditions, certain passive income is subject to tax in the hands of the Japanese parent company.

New CFC rules will apply as from a CFC’s fiscal year starting on or after April 1, 2018. The new rules introduces a new category of CFC that includes paper, cash box and black listed companies with an effective tax rate of 30%. The inclusion of taxable profits from such CFCs cannot be waived. The new rules also expand the definition of controlled to include companies controlled in substance, regardless of the shares owned.

Disclosure Requirements

Disclosure requirements apply to the 10%-or-more shareholders of CFCs. Transactions with foreign related parties should be disclosed (on Form 17(4)) and submitted with the tax return.

Anti-avoidance

Broadly applicable anti-avoidance rules are in place.

Earnings Stripping

Where net interest payments to related persons (i.e. interest payments to related persons, less relevant interest income,) exceed 50% of adjusted taxable income in a fiscal year, the excess portion is non-deductible. For these purposes, “related persons” is broadly defined, and includes similar controlling and affiliate relationships to those discussed under “Thin Capitalization.” The rules also can apply to interest payments to certain third parties (e.g. where a third party provides a loan that is guaranteed by a related person). To summarise, “adjusted taxable income” is taxable income without applying certain provisions (including offsetting brought-forward tax losses, the dividends received deduction, the foreign dividend exemption, etc.), and adding back net interest payments to related persons and certain other expenses. De minimis exceptions to the application of the earnings stripping rules exist for:

- net interest payments to related parties not exceeding JPY ten million, or
- net interest payments to related parties that are not more than 50% of the total interest expenses.

Where both the earning stripping and the thin capitalization rules are applicable, the larger of the two potential disallowances will apply. To the extent the application of the above rules gives rise to non-deductible related party interest, such interest expense may be carried forward and deducted (within the limitation) against taxable income arising during the following seven fiscal years.

Stamp Duty

Where there is a transfer of land, buildings or business or certain notes and agreements there is a stamp duty on the seal that is placed on the agreement. It can range from JPY 200 to JPY 600,000.

Sales Taxes / VAT

Japanese consumption tax (JCT), similar to a European-style VAT, is levied on all taxable goods and services and on all taxable goods imported into Japan.

The standard rate is 8%, which is a combined national and local tax rate.

There is a zero rate for certain categories of goods and services. Exports are exempt.

An existing company may elect to be a consumption taxpayer if taxable sales for consumption tax purposes do not exceed JPY ten million in the “base period” (two years before the current year, or the first six months of the prior year), subject to certain other conditions. A new company with share capital of less than JPY ten million should be automatically exempt from filing consumption tax returns until taxable sales exceed JPY ten million in the base period or a timely consumption

taxpayer election is filed. The election is binding for two taxable years. Other than this election, no registration procedures exist.

Financial Transactions / Banking Services Tax

There is no specific financial transactions tax. However, stamp duty could be applicable to certain documents.

Share Registration

Share registration tax is assessed on the registration of new or additional share capital, at 0.7%.

Cash Pooling

There are no specific tax rules relating to cash pooling arrangements.

Capital Gains Tax

Capital gains of a resident Japanese company are not subject to separate or preferential taxation. Instead, all such gains must be reported when realized, and are taxed with other ordinary corporate income.

Capital losses generally are deductible.

Real Property Tax

The municipal fixed assets levy is assessed at an annual rate of 1.4%. A real estate acquisitions tax of 3-4% (temporarily 1.5-2%) of the assessed value applies at the time land or buildings are acquired, and a real estate registration tax is imposed on the assessed value of real property at rates ranging from 0.4% to 2%, depending on the type of transfer.

Payroll and Social Security Taxes

There is no payroll tax payable by employers.

All Japanese companies, including subsidiaries of foreign companies, are “resident employers”. Non-Japanese companies may also be resident employers if they have an office in Japan. Resident employers are required to withhold payroll and social security taxes at source.

The employer must withhold the employee’s contribution and make its own contributions to social security tax, which has several components. The highest combined employer portion is approximately 16.248%. The highest combined employee’s portion is approximately 15.510%.

The employer’s contribution is deductible for corporation tax purposes.

All tax information supplied by Deloitte Touche Tohmatsu and Deloitte Highlight 2018 (www.deloitte.com).

Cash Management

Banking System

Banking Regulation

Banking Supervision

Central bank

The Japanese central bank is the Bank of Japan (BOJ). It was established in 1882 and is based in Tokyo. Its authority derives from the Bank of Japan Act and its relevant amendments.

Approximately 55% of the BOJ is owned by the Ministry of Finance (MOF).

Within Japan, it is the banker to the government and to other banks. It issues currency, manages Japan's monetary reserves, sets and implements monetary policy and supports Japan's government economic policy. Within the BOJ, the main objective is to maintain price stability.

Other banking supervision bodies

Bank supervision is performed by the Financial Services Agency (FSA), which is also responsible for supervising insurance companies and securities firms. The Securities and Exchange Surveillance Committee was absorbed into the FSA in 2001.

Central Bank Reporting

General

Japan does apply some central bank reporting requirements. These are managed by the BOJ on behalf of the MOF, according to the rules set out in the Foreign Exchange and Foreign Trade Law (revised 2005) and relevant regulations.

What transactions - listed

Transactions in the following categories must generally be reported ex post facto monthly to the BOJ:

- all non-trade related transfers between resident and non-resident bank accounts with a value equal to or above JPY 30 million (or its foreign currency equivalent);
- all capital transactions (i.e. loans, credits) between resident and non-resident bank accounts with a value equal to or above JPY 100 million. Non-residents maybe subject to other reporting requirements if capital transactions exceed JPY 100 million.

Whom responsible

The resident entity is ultimately responsible for the transmission of the required information to the BOJ.

Companies can provide the information directly to the BOJ through an internet-based reporting system (BOP System) whose software is provided by the central bank.

Additional reporting for liquidity management schemes

There are no additional reporting requirements. Netting and other cross-border settlements no longer require permits.

Exchange Controls

Exchange structure

Japan has a unitary exchange structure.

Classification

Japan has a free floating currency whose exchange rate is determined freely in the foreign exchange market against all major currencies.

Exchange tax

There is no exchange tax.

Exchange subsidy

There is no exchange subsidy.

Forward foreign exchange market

There are no restrictions on forward foreign exchange markets.

Capital flows

There are controls on certain capital transactions made by insurance companies, who cannot engage in transactions that would result in their foreign currency denominated assets totaling more than 30% of their overall assets.

Prior declaration is required for outward direct investment in certain industry sectors such as arms manufacturing, narcotics, leather products and fisheries. Prior declaration is required for inward direct investment in certain industry sectors, including agriculture, oil, mining, leather products and air or maritime transportation.

Loans, interest and repayments

There are no controls on the provision of loans by commercial banks.

Royalties and other fees

There are no restrictions.

Profit remittance

There are no restrictions on the remittance of profits into or out of Japan.

Bank Account Rules

Resident entities are permitted to hold fully convertible foreign currency bank accounts domestically and outside Japan.

Non-resident entities are permitted to hold fully convertible domestic and foreign currency bank accounts within Japan.

To open a bank account, a company must supply a copy of its registration documents along with the appropriate account opening documentation. Account opening documentation can also be completed in English.

Anti-money Laundering and Counter-terrorist Financing

- Japan has implemented anti-money laundering and counter-terrorist financing legislation, (the Law Concerning Punishment of Organised Crime, Control of Criminal Proceeds and Other Matters 1999; the Law on Customer Identification and Retention of Records on Transactions with Customers by Financial Institutions 2002; the Act on Punishment of Financing of Offences of Public Intimidation 2002; the Financial Instruments and Exchange Law of 2006 and the Law for the Prevention of Transfer of Criminal Proceeds (the Criminal Proceeds Act 2016). Amendments to the Prevention of Transfer of Criminal Proceeds Act were passed and promulgated by the Japanese Government in November 2014, are due to come into force within two years from the date of promulgation.
- A Financial Action Task Force (FATF) member, Japan observes most of the FATF-49 standards. Japan is also a member of the Asia-Pacific Group on Money Laundering (APG) and has observer-jurisdiction status on the Council of Europe's MONEYVAL Committee.
- In June 2014, the FATF expressed its concern about Japan's "lack of progress in addressing numerous and serious deficiencies in its AML/CFT framework. The FATF called on Japan to promptly address these AML/CFT weaknesses."
- Japan has a financial intelligence unit (FIU), the Japan Financial Intelligence Centre (JAFIC), housed within the National Police Agency, which is a member of the Egmont Group.
- Account opening procedures require formal identification of the account holder and (for legal entities) beneficial owners.
- Financial institutions have to identify clients for domestic or international transactions, including wire transfers exceeding JYP 100,000.
- Financial institutions in the broadest sense must record and report suspicious transactions to the JAFIO.
- Businesses must also report all foreign currency exchanges exceeding JYP 1 million per month.
- All individuals entering and departing Japan must report physically transported currency and monetary instruments (including securities and gold weighing more than one kilogram) exceeding JYP 1 million, or its equivalent in foreign currency, to the customs authorities.
- Customer identification records must be maintained for at least seven years.

Data as at November 2018.

Banking Sector Structure

Major Domestic Banks

Bank	Total assets (USD million) March 31, 2017
Japan Post Bank	1,881,928
MUFG Bank	1,833,631
Sumitomo Mitsui Banking Corp	1,624,901
Mizuho Bank Ltd	1,455,571
The Norinchukin Bank	987,323*
Sumitomo Mitsui Trust Bank	471,814
Mitsubishi UFJ Trust and Banking Corporation	401,183*
Shinkin Central Bank	365,001*
Resona Bank Ltd	279,342

* As at March 31, 2018.

Source: www.accuity.com.

Overall Trend

Japan has four large city banks – The Bank of Tokyo-Mitsubishi UFJ, Sumitomo Mitsui Banking Corp, Resona Bank and Mizuho Bank – and 64 regional banks, which are divided into first and second tiers, generally according to size and assets. Fifty-six foreign banks have established operations in Japan. Japan has an additional 14 trust banks, 24 bank holding companies and 15 ‘other’ banks, such as internet banks.

Though foreign banks have not yet established themselves in the retail sector, many have taken advantage of liberalization and regulatory reforms by acquiring weaker local institutions to increase their presence in Japan. Many foreign companies prefer to borrow and invest with foreign banks due to the differences in language and business practices, however most utilize domestic banks for deposit and payroll services.

The country’s shrinking population and the BoJ’s negative interest rate policy has weakened the sector’s profit margins and prompted some of the of the country’s regional banks to look to mergers as way of creating efficiencies. The merger between Daishi Bank and Hokuetsu Bank, two small Japanese lenders, completed in October 2018 and a new company, Daishi Hokuetsu Financial Group formed. Resona Holdings, Sunitomo Mitsui Financial Group, Sumitomo Mitsui Banking Corporation, Minato Bank Ltd (Minato), Kansai Urban Banking Corporation (Kansai Urban), and The Kinki Osaka Bank (Kinki Osaka) plan to consolidate regional banks, Kansai Urban Banking, Minato Bank and Kinki Osaka Bank. The merger of regional banks Fukuoka Financial Group and Eighteenth Bank was approved in August 2018. Larger banks are hoping to bolster earnings by reducing branch numbers or by increasing investment in digitalizing their services, for example.

Payment Systems

Overview

Japan's four main interbank payment clearing systems are BOJ-NET, FXYCS, Zengin and the BCCS.

BOJ-NET is the country's real-time gross settlement system, used for high-value and urgent electronic interbank payments. Operated by the BOJ, it also settles the net positions resulting from Japan's private sector deferred net settlement systems.

The Foreign Exchange Yen Clearing System (FXYCS), operated by the Tokyo Bankers' Association (TBA), is the country's main RTGS clearing system for foreign exchange transactions and payments involving non-residents. Both legs of a foreign exchange transaction can also be processed through Continuous Linked Settlement (CLS). There are eight Japanese banks that are Settlement Members of CLS Bank – Mizuho Corporate Bank, Daiwa Securities Group, Sumitomo Mitsui Banking Corp, Sumitomo Mitsui Trust Bank, Norinchukin Bank, Nomura, Mitsubishi UFJ Trust and Banking and Bank of Tokyo-Mitsubishi UFJ.

The Zengin Data Telecommunications System (Zengin System) is the country's primary retail payments clearing system. Operated by the Japanese Banks' Payment Clearing Network (Zengin-Net), Zengin processes the majority of non-urgent and low-value electronic payments denominated in JPY (except for those involving non-residents). In October 2018, the Zengin System started 24/7 operations.

The Bills and Checks Clearing System (BCCS) is the paper-based clearing system for Japan and is a network of regional clearing houses owned by local bankers' associations. Tokyo Clearing House is the largest, handling approximately 70% of checks, promissory notes and other paper-based instruments processed in Japan.

High-value

Name of system	BOJ-NET
Settlement type	Real-time gross settlement
Settlement cycle	Payments are settled on a same-day basis with immediate finality.
Links to other systems	Interface connects to Zengin System, routing large value payments to BOJ-NET for real-time settlement.
Payments processed	High-value and urgent domestic electronic payments. It also provides final settlement for the net positions of transactions arising from the FXYCS, Zengin and BCCS.
Currency of payments processed	JPY
Value and other limits to processing	There are no value thresholds.
Operating hours	08:30–21:00 for all participants (07:30 on the last business day of each month)
System holidays	The system is open on all Japanese business days.
Cut-off times	Final settlement for BCCS net positions is 17:00. Final settlement for FXYCS net positions is 15:00. Final settlement for Zengin net positions of payments under JPY 100 million is 16:30.
Participants	502 direct participants
Access to system	Through a dedicated bank terminal or a direct link to the BOJ's computer network
Future developments	NA

High / Low-value

Name of system	Foreign Exchange Yen Clearing System (FXYCS)
Settlement type	Real-time gross settlement (RTGS)
Settlement cycle	Payments are settled on a same-day basis with immediate finality through the RTGS mechanism.
Links to other systems	NA
Payments processed	All JPY legs of cross-border electronic payments, including import and export settlement payments. All JPY transactions involving non-residents and JPY-denominated bond transactions.
Currency of payments processed	JPY
Value and other limits to processing	The system places sender net debit caps on each participant based on the system's risk exposure to that participant.
Operating hours	09:00-14:00
System holidays	The system is open on all Japanese business days.
Cut-off times	14:00
Participants	27 direct participants and 175 indirect participants
Access to system	Data format is similar to SWIFT.
Future developments	NA

Low-value

Name of system	Zengin Data Telecommunications System
Settlement type	Designated time net settlement
Settlement cycle	Payments below JPY 100 million are made by 15:30 are settled via the BOJ at 16:15. Payments of JPY 100 million and above are submitted for settlement to BOJ-NET on a real-time basis.
Links to other systems	Interface connects to BOJ-NET to route large value payments for real-time settlement.
Payments processed	Low-value and non-urgent domestic electronic payments, both single retail transactions and bulk electronic credits between resident accounts.
Currency of payments processed	JPY
Value and other limits to processing	The system places sender net debit caps on each participant based on the system's risk exposure to that participant.
Operating hours	24/7/365.
System holidays	The system is open on all Japanese business days.
Cut-off times	Payments for designated time net settlement must be submitted by 15:30.
Participants	1,276 (September 2018)
Access to system	Companies with access to the automatic Answer Network System for Electronic Requests (ANSER) can make funds transfers in real time between resident JPY accounts via Zengin.
Future developments	

Name of system	Bills and Checks Clearing System (BCCS)
Settlement type	Designated time net settlement
Settlement cycle	There is one daily processing cycle. Net positions are settled daily at 12:30 via BOJ-NET transfers. Access to cleared funds is usually available after 13:00 on the day following interbank settlement.
Links to other systems	NA
Payments processed	All paper-based instruments, including checks and promissory notes
Currency of payments processed	JPY
Value and other limits to processing	There are no value thresholds.
Operating hours	NA
System holidays	The system is open on all Japanese business days.
Cut-off times	Net positions are settled via BOJ-NET at 12:30.
Participants	Tokyo Clearing House has 304 participants, 106 direct and 198 indirect.
Access to system	Banks send checks to clearing houses via post.
Future developments	NA

Payment and Collection Instruments

Overview and Trends

The most important cashless payment instruments in Japan are credit transfers in terms of value and, in terms of volume, card based electronic e-money and payment cards. Checks are primarily used for business-to-business transactions, while direct debits are widely used among individuals and businesses to make regular payments. Though the Japanese have been slower to adopt credit and debit cards for payment purposes, their usage, particularly credit cards, is increasing rapidly.

Statistics of Instrument Usage and Value

	Transactions (million)		% change	Traffic (value) (JPY trillion)		% change
	2016	2017	2017/2016	2016	2017	2017/2016
Checks	59.42	55.50	-6.6	424.22	374.16	- 11.8
Debit cards	9.89	NA	--	0.40	NA	-
Credit cards	NA	NA	NA	53.93	58.37	8.2
Credit transfers	1,609.99	1,626.78	1.0	2,940.55	2,893.32	-1.6
Direct debits	NA	NA	NA	NA	NA	NA
Card-based e-money	5,191.60	5,422.68	4.2	5.14	5.20	1.2

Source: Bank for International Settlements, CPSS - Red Book statistical update, September 2018.

Paper-based

Checks

Since the increase in electronic credit transfers to make supplier payment, the volume of checks has been in steady decline. Rarely used by consumers, the main users tend to be companies, typically for supplier payments and other business-to-business transactions.

According to Japanese law, all financial institutions must freeze all current account and lending transactions with a payer for two years if the payer dishonors a check or promissory note twice within six months.

Promissory Notes

Despite the overall decrease in the use of paper-based instruments, promissory notes are still a popular payment method between Japanese companies. There is an active discount note market, which allows recipients of promissory notes access to working capital finance.

Electronic

Credit Transfer

Credit transfers are the main form of payment instrument used by companies to pay suppliers and salary payments. They are also used to make tax and benefit payments, and in treasury operations. Due to a lack of personal check writing, credit transfers are also popular with individuals, and the number of credit transfers used continues to increase along with the growth in personal internet banking.

High-value

High-value and urgent credit transfers are processed through BOJ-NET, except if they involve non-residents or arise from cross-border payments, in which case they are handled through the FXYCS. Customer and interbank payments must be submitted by 21:00 to be settled on a same-day basis. All payments settled through BOJ-NET are done so with immediate finality.

High-value and urgent cross-border electronic payments that are not handled via the FXYCS are processed through correspondent bank networks. Most banks have direct access to SWIFT.

Low-value

Non-urgent and low-value credit transfers are processed through Zengin. Most payments are processed to be settled on a same-day basis.

Low-value cross-border transfers are processed via the FXYCS. Japan Post and Postal Savings Business Headquarters are members of Eurogiro, which is a postal bank and office cooperative concentrating on low-value cross-border payments. Through an agreement with SWIFT, Eurogiro can act as an administrator for payment transactions between Eurogiro members using SWIFTNet, under a closed user group (CUG) set-up. This permits members to exchange FileAct and other types of exchanges between themselves or with non-SWIFT members of Eurogiro via the Eurogiro hub.

Direct Debits

There is no uniform direct debit scheme in Japan and as such, each direct debit relationship must be established independently. A company must send a request to its agent bank, which then in turn requests to establish a direct debit with the payer's bank at the designated collection bank.

Despite the complicated collection procedures, direct debits are increasingly popular with both individuals and companies when making regular payments, such as mortgage or utility payments.

Payment Cards

Though the Japanese have been slower to adopt credit and debit cards for payment purposes, their usage has increased rapidly. Debit cards are more commonly issued, with 432.0 million in circulation at the end of 2017. There were 337,400 million cards with a cash function in circulation in 2017. Credit cards issued totalled approximately 260 million at the end of 2017. Contactless credit cards are growing rapidly in popularity because they do not require authorization by signature or PIN, enabling quicker payments.

The Credit and Finance Information System (CAFIS) carries out the data processing for both credit and debit cards, connecting retailers with credit card companies or debit card customers' banks.

ATM/POS

There is an increasing use of ATMs and POS terminals. At the end of 2017, there were approximately 136,999 ATMs in Japan. Approximately 90% of Japan's 1.9 million POS terminals are now enabled to accept smart cards with EMV technology.

Japan's nine private ATM networks are connected through the Multi Integrated Cash Service (MICS), which transmits and clears ATM data from all the networks. Japan's Post Office maintains its own ATM network.

Electronic Wallet

Electronic money schemes in Japan have expanded rapidly in recent years; eight major brands (Edy, Suica, ICOCA, PASMO, nanaco, WAON, SUGOCA and Kitaca) have issued approximately 373 million instruments (including around 34.4 million electronic money instruments on mobile phones). There are also approximately 2.4 million e-money terminals. Mobile payment schemes are available, including AppLe Pay and Google Pay.

Although the total value of electronic money remains small compared to some payment instruments, in terms of volume they are now the most widely used cashless payment instrument, due to a sharp increase in the uptake from merchants in recent years. The government has also set a target of doubling the percentage of cashless payments to over 40% over the next decade to reduce the country's dependency on cash.

In August 2018, there were 523 million e-money transactions totaling JPY 475 billion, a year-on-year increase of 10% and 7.1%.

Schemes currently on offer usually chip-based, using either plastic cards or mobile phones. Electronic money is mostly used for low-value payments. The most common schemes in operation are:

- Edy - a stored-value money card scheme that is accepted in convenience stores, fast food or restaurant chains, and on online shopping websites via a special card reader called Pasori. The card can be reloaded and stores a maximum value of JPY 50,000.
- WAON and nanaco mobile phones and prepaid cards are popular payment methods. WAON is used in over 25,000 stores throughout Japan. Nanaco is available in Japan's 7 Eleven stores.
- Suica, ICOCA, SUGOCA, Kitaca and PASMO are the most commonly used smart cards for travel on Japan's transport infrastructure.
- densai.net is an electronic monetary claim service, operating as an e-money alternative to bills, notes and credit transfer payments made to businesses. It is increasingly used for transfers to larger businesses, with over 500 financial institutions and 260,000 businesses already participating in the service.

Liquidity Management

Short-term Borrowing

Overdrafts

JPY and foreign currency overdrafts are commonly used by companies with good credit standing. Through persistent use along with associated short-term loans, overdrafts form a core part of companies' funding.

Interest charged for overdrafts is higher than for discounted bills.

Bank Lines of Credit / Loans

Short-term advances of up to six months are a very common method of corporate funding from the City banks.

Foreign currency denominated impact loans are available, at variable rates with LIBOR, TIBOR or Japanese prime lending rates.

Interest charged is at a margin over reference rates –LIBOR and TIBOR.

Collateral taken includes accounts receivables, property, securities and inventory, and through bill discounting (see below).

Traditionally compensating balances were required of up to 40%, but deregulation, financial disintermediation and non-bank financial institutions' competition in the banking market means they are required less.

Trade Bills – Discounted

Bill discounting is available and used, but is bureaucratic because of the level of supporting documentation required. Where used, funding is available for terms from one week to a year.

Factoring

The majority of commercial banks in Japan have set up affiliated companies or departments for dealing with the factoring of receivables, which are often used as security for short-term advances. If used, factoring is mostly disclosed.

Commercial Paper

Companies issuing commercial paper (CP) need a minimum of an A3 credit rating or must be guaranteed by a financial institution. Back-up credit lines are not required if the rating agency determines so.

Tenors are less than one year year. The minimum issue size is JPY 100 million.

Japanese companies can only issue JPY-denominated CP, which is issued through dealers or

directly to investors who traditionally hold to maturity.

Foreign companies can issue Euro-yen notes overseas and JPY-denominated (samurai) CP in Japan.

Bankers' Acceptances

Bankers' acceptances are not used.

Supplier Credit

The period of credit difficulties has made cash payment more common, with less supplier credit available.

Intercompany Borrowing, including Lagging Payments

Trade bills are sometimes used to facilitate intercompany lending.

Short-term Investments

Interest Payable on Bank Account Surplus Balances

Interest-bearing current, or checking, accounts are usually not available. However, the sweeping of surpluses balances into interest-bearing overnight accounts is feasible, subject to legal advice.

Demand Deposits

Interest-bearing demand, or sight, deposit accounts are available to both resident and non-resident entities in JPY and foreign currency.

Time Deposits

Time deposits are popular short-term investment instruments in Japan. Banks offer them for terms from one week to up to five years. Foreign currency accounts usually offer higher interest rates than is currently available with JPY-denominated deposits and they have become a popular choice over recent years during Japan's zero-rate environment.

Certificates of Deposit

Certificates of deposit (CDs) are used as investment instruments in Japan by private companies. They are available usually for maturities of three months, although terms of between one day and five years are possible. CDs pay a fixed interest rate. There is an active secondary market.

Treasury (Government) Bills

Treasury discount bills (T-bills) are issued by the Japanese government and can only be held by corporations. They are issued for maturities of three, six and twelve months through bi-monthly auctions. T-bills of JPY 10,000 are issued to retail investors with a three-year fixed-rate, five-year fixed-rate and ten-year floating-rate.

Commercial Paper

Commercial paper is a popular form of short-term investment in Japan. Japanese companies issue commercial paper for terms of up to a year though maturities of three months are the most common. The minimum investment is JPY 100 million.

Individuals can also invest in commercial paper.

Money Market Funds

Money market funds are available and remain popular despite Japan's negative interest rates.

Repurchase Agreements

Repurchase agreements (repos) are available as a short-term investment instrument in Japan.

Bankers' Acceptances

Bankers' acceptances are no longer available as short-term investment instruments in Japan.

Liquidity Management Techniques

Cash Concentration

Cash concentration is the more common technique used by Japanese companies to manage company and group liquidity. Of the available techniques, zero-balancing, though not as frequently used as in comparable countries, is the most commonly used.

Both resident and non-resident bank accounts can participate in a cash concentration structure located in Japan. However, companies do need to be aware of Japan's thin capitalization rules when establishing cross-border sweeping structures. Japanese companies are increasingly locating cross-border structures within and outside Japan as a result of the relaxation in foreign exchange laws. For example, many multinational companies are establishing treasury centers in Tokyo, London and New York linking individual JPY accounts to a pool account located in each center.

The current maximum interest rate applicable to all JPY-denominated current accounts in Japan is set at 0% per annum. Any technique which incorporates an automated sweep to or from a JPY-denominated current account should be checked for compliance with this instruction.

Notional Pooling

Notional pooling is available in Japan. However, it is not often used. This is primarily because the tax implications for it are unclear and can make notional pooling too complicated.

Trade Finance

General Rules for Importing/Exporting

Japan is a member of APEC and the WTO, and is a dialogue partner with ASEAN.

Japan has signed free trade agreements (FTAs) with ASEAN, Australia, Brunei, Chile, India, Indonesia, Malaysia, Mexico, Peru, Mongolia, the Philippines, Singapore, Switzerland, Thailand and Vietnam. Japan is negotiating agreements with Canada, Colombia, the EU, the Gulf Cooperation Council (GCC) countries (Bahrain, Oman, Qatar, Saudi Arabia, UAE and Kuwait), and Turkey. It is also in negotiations for a three-party FTA between both China and South Korea.

Japan, along with another 10 countries, signed a new version of the Trans-Pacific Partnership trade deal on March 8, 2018, without the U.S. Japan and ten other countries have agreed to go ahead with the Trans-Pacific Partnership (TPP), a proposed free trade agreement between Brunei Darussalam, Chile, Singapore, New Zealand, Malaysia, Peru, Vietnam, Mexico, Australia and Canada, without the USA.

In July 2018, Japan and the EU signed one of the world's biggest free trade deals, covering nearly a third of the world's GDP.

Imports

Documentation Required

Imports originating outside Japan will normally need to be accompanied by a commercial invoice, a bill of lading, a packing list, a customs import declaration certificate and a cargo dispatch document.

Import Licenses

Items which may impinge on public safety, morals and health, and, in some cases, Japanese industry and the wider economy require import licenses.

The Ministry of Economy, Trade and Industry (METI) grants licenses at no cost.

Import Taxes/Tariffs

Goods imported into Japan may be subject to customs tariffs, an 8% consumption tax (VAT) and excise duties (for products such as liquor, tobacco, gasoline, LPG, and automobiles)

Japan applies five custom tariff rates to all imports – general, WTO, preferential, least developed country and temporary – depending on the item and country of origin. Most import duties range between 3% and 15%, up to a maximum rate of 60%.

Japan operates two free trade zones: Okinawa and Naha.

Financing Requirements

There are no particular financing requirements for imports.

Risk Mitigation

Japan does not operate a national risk mitigation program for importers.

Prohibited Imports

Japan prohibits imports in line with UN Security Council resolutions. Imports are also prohibited for moral reasons, and to protect national security and intellectual property rights. Imports of commodities such as firearms, opium and other narcotics are prohibited.

Exports

Documentation Required

Exports to countries outside Japan will normally need to be accompanied by a customs declaration, a commercial invoice and a bill of lading. Other certificates and permits may also be required.

Proceeds

There are no restrictions on the use of export proceeds.

Financing Requirements

There are no particular financing requirements for exports.

Export Licenses

The METI may require prior consent for export companies whose products could affect the balance of international trade, national and international security, and the environment. Exports of certain raw materials for overseas processing and re-importation require a license.

Export Taxes/Tariffs

Japan does not levy taxes or tariffs on exports.

Risk Mitigation

State-supported export credit insurance is available from the Japan Bank for International Cooperation (JBIC).

Nippon Export and Investment Insurance (NEXI) is Japan's private export credit agency and is a member of the Berne Union. The Japanese government reinsures any export credit insurance agreements offered by NEXI. Both domestic and foreign-owned banks can provide export financing as well.

Prohibited Exports

Japan prohibits exports in line with UN Security Council resolutions. Japan may only export military goods to the USA. Since 2009, Japan has banned all exports to North Korea.

Information Technology

Electronic Banking

Most Japanese companies have access to electronic banking services, which are known as firm banking in Japan. There is no bank-neutral electronic banking system in Japan; instead banks provide their own proprietary electronic banking systems. A full range of electronic banking services is available, from daily transaction and balance reporting to payment initiation and access to overseas bank accounts. In addition, companies with access to ANSER (Answer Network System for Electronic Requests) can view balance records on accounts across several banks (provided the banks meet with ANSER standards). Users can effect fund transfers in domestic and foreign currency in real time between these accounts via Zengin. This service is primarily available for accounts with domestic banks but an increasing number of foreign banks belong to ANSER.

Several banks offer internet banking and its use is widespread among both consumers and companies. In most cases, internet users have a similar range of electronic banking services to those offered through a physical workstation.

Non-Japanese companies may find electronic banking difficult as there can be problems transliterating data from Japanese characters into a readable format for internationally developed ERP systems. Some international companies therefore choose to work with separate electronic banking and ERP systems for their Japanese operations.

Japan has an internet penetration rate of 92%.

External Financing

Long-term Funding

Bank Lines of Credit / Loans

Long-term credit banks are the main providers of corporate term loans and credit facilities. Insurance companies also provide term credit.

Interest charged is at a margin over the prime lending rate or Tibor.

Collateral security (including property and receivables) is often required.

There has been a growth of syndicated loans, which reflects the desire of lenders (banks and insurance companies) to share risk in unsettled times.

Leasing

A wide range of assets (including vehicles, plant and machinery, IT equipment, and property) are leased. Leases are mostly with fixed interest rates.

Bonds

Public domestic JPY-denominated bond issues are widely used for corporate funding. Foreign companies can issue JPY-denominated bonds (samurai).

Bond issues are usually rated, and include straights, convertibles, medium-term notes and subordinated issues, as well as exchangeable bonds, which are exchangeable into shares of other companies rather than the issuer's.

Private Placement

Large and small and medium-sized enterprises (SMEs) are able to place bonds privately.

The government-linked Organization for Small and Medium Enterprises and Regional Innovation guarantees SMEs private bond placements of up to 90% of the issuer's net worth.

Asset Securitization / Structured Finance

Securitized bonds include accounts receivable, vehicle loans, lease payments, property, residential and commercial mortgages, and intangible assets. Banks have packaged loans – collateralized loan obligations (CLOs).

The public sector is encouraged to securitize assets to back bond funding.

Government (Agency) Investment Incentive Schemes / Special Programs or Structures

The public sector finances most major infrastructure projects, leaving private finance initiatives for smaller projects.

Useful Contacts

National Treasurers' Association

Japan Association for CFO (JAFCO) – contact Hiroshi Jaguchi -- yaguchi@cfo.co.jp

National Investment Promotion Agency

Japan External Trade Organisation – www.jetro.go.jp

Central Bank

Bank of Japan – www.boj.or.jp

Supervisory Authority

Financial Services Agency – www.fsa.go.jp/en/index.html

Payment System Operators

Bank of Japan – www.boj.or.jp

Japanese Bankers Association – www.zenginkyo.or.jp

Banks

The Bank of Tokyo-Mitsubishi UFJ – www.bk.mufg.jp/global/index.html

Sumitomo Mitsui Banking Corp – www.smbc.co.jp/global/index.html

Mizuho Bank – www.mizuhobank.com

The Norinchukin Bank – www.nochubank.or.jp

Stock Exchanges

Japan Exchange Group – www.jpx.co.jp

Osaka Securities Exchange – www.ose.or.jp

Nagoya Stock Exchange – www.nse.or.jp

Fukuoka Stock Exchange – www.fse.or.jp

Sapporo Securities Exchange – www.sse.or.jp

Ministry of Finance

Ministry of Finance – www.mof.go.jp

Ministry of Economy

Ministry of Economy, Trade and Industry – www.meti.go.jp

Statistics Japan — www.stat.go.jp

Chamber of Commerce

Japan Chamber of Commerce and Industry — www.jcci.or.jp

Bankers' Association

Japanese Bankers Association — www.zenginkyo.or.jp