ASSOCIATION FOR FINANCIAL PROFESSIONALS

Underwritten by PNC

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: 53 foreign banks have established 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, Peru, the Philippines, Singapore, Switzerland, Thailand and Vietnam. It signed an FTA with ASEAN in November 2007, which came into effect on December 1, 2008. Japan is currently negotiating FTAs with Canada, Colombia, Mongolia, the EU. Details of a proposed Trans-Pacific Partnership (TPP) are currently awaiting legal and political approval in Japan.

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

Receive regular Economic Updates from our senior economist by going to pnc.com/economicreports.

(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	126.7 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	2016 – December 23, 31 2017 – January 1–3, 9, February 11, March 20, April 29, May 3–5, July 17, August 11, September 18, 23, October 9, November 3, 23, December 23, 31. 2018 – January 1–3, 8, February 12, March 21, April 30, May 3–5, July 16, August 11, September 17, 24, October 8, November 3, 23, December 24, 31. Source: www.goodbusinessday.com.
International dialing code	+ 81

JAPAN

Country Credit Rating

FitchRatings last rated Japan on July 22, 2016 for issuer default as:-

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

Source: www.fitchratings.com, November 2016.

Economic Statistics

Economics Table

	2010	2011	2012	2013	2014
GDP per capita (USD)	43,152	46,384	46,834	38,928	36,450
GDP (JPY trillion)	482	471	475	482	490
GDP (USD billion)	5,495	5,906	5,955	4,943	4,621
GDP volume growth* (%)	+ 6.7	- 0.4	+ 1.7	+ 1.4	- 0.1
BoP (goods, services & income) as % GDP	4.2	2.4	1.3	1.1	1.2
Consumer inflation* (%)	- 0.7	- 0.3	Ø	+ 0.4	+ 2.7
Population (million)	127	127	127	127	127
Unemployment (%)	5.1	4.6	4.4	4.0	3.6
Interest rate (local currency MMR)† (%)	0.094	0.078	0.083	0.075	0.068
Exchange rate‡ (JPY per USD)†	87.780	79.807	79.790	97.596	105.945

	2015			2016	
	Q3	Q4	Year	Q1	Q2
GDP per capita (USD)	–	–	NA	–	–
GDP (JPY trillion)	–	–	NA	–	–
GDP (USD billion)	–	–	NA	–	–
GDP volume growth* (%)	+ 1.8	+ 0.8	+ 0.6	Ø	NA
BoP (goods, services & income) as % GDP	–	–	NA	–	–
Consumer inflation* (%)	+ 0.2	+ 0.3	+ 0.8	+ 0.1	- 0.4
Population (million)	–	–	127	–	–
Unemployment (%)	3.4	3.1	3.4	3.2	3.3
Interest rate (local currency MMR)† (%)	0.074	0.076	0.073	NA	NA
Exchange rate‡ (JPY per USD)†	122.254	121.506	121.044	115.490	108.173

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

Source: *International Financial Statistics,* IMF, September 2016 and 2015 Yearbook; and World Trade Organization.

JAPAN

Sectoral Contribution as a % of GDP

Agriculture – 1.2%

Industry – 27.5%

Services – 71.3% (2015 estimate)

Major Export Markets

USA (20.2%), China (17.5%), South Korea (7.1%), Hong Kong (5.6%), Thailand (4.5%)

Major Import Sources

China (24.8%), USA (10.5%), Australia (5.4%), South Korea (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.

The BOJ pursued a policy of "quantitative easing" from 2001 to 2006, whereby the bank targeted the base of the money supply. Under this policy, the BOJ kept the ODR at 0% and manipulated the money market rates by exercising control over its money market operations, i.e. the buying and selling of Japanese government securities and bills, and through the amount it was willing to lend. In this way, the BOJ could maintain enough liquidity in the financial system to allow companies to borrow at low cost. This seemed to have helped Japan end its deflationary cycle and in March 2006, the BOJ announced its intention to end this policy and move towards a more normal inflation-targeting policy. However, the onset of the global economic crisis, together with failing energy costs in 2008, saw the threat of deflation return to Japan. The BOJ reacted to this by once again cutting interest rates, initially to pre-2006 levels of around zero, and, in January 2016, into negative territory at -0.1%. Since April 2013, the BOJ has again used quantitative easing, in hopes of achieving a target of 2% CPI inflation.

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

Since the 1990s, Japan's economy has weathered a series of periods of recessionary or stagnant economic growth. After 2008, difficulties in the US economy, Japan's biggest export market, and falling demand in China combined to badly damage Japan's exports, which account for nearly half of all the country's manufacturing output. As a result, Japan recorded its first current account deficit for 13 years in January 2009 and its first annual trade deficit in nearly 30 years in March 2009. The Japanese government responded with a series of fiscal stimulus packages to try to improve conditions.

However a slow economic recovery in 2010 was brought to an abrupt halt as a result of the 2011 earthquake and tsunami. The government of Prime Minister Shinzo Abe has committed to further economic stimulus measures under his “Abenomics” economic programme, the latest being in July 2016. Despite this, falling manufacturing output and exports continue to challenge economic growth. Consumer spending fell sharply after the April 2014 increase in sales tax from 5% to 8%. A further increase in sales tax (to 10% in 2015) has been delayed until April 2017 by the recent poor economic performance. Continued increases in government spending, together with a widening trade deficit and the growing impact of Japan’s ageing population, will put further pressure on public finances meaning the country’s long-term economic fortunes remain uncertain.

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 2016.

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

In December 2012 Japan's Liberal Democratic Party (LDP) returned to office in a landslide election victory. This restored the party to power after a turbulent three-year period of Democratic Party of Japan (DPJ) administration, which governed under three successive prime ministers. Shinzo Abe became prime minister for the second time on December 29, 2012, having previously stepped aside from the position in September 2007 for health reasons.

With the exception of a period between August 2009 and December 2012 and a two-year period in the 1990s, the LDP has held power in Japan continuously for over 50 years. Their election defeat in August 2009 was the culmination of voter dissatisfaction with the party and each of the three LDP prime ministers who had served over two years. However, the LDP return to office in 2012 was emphatic, winning 294 of the 480 available seats in Japan's lower house of parliament. They have since consolidated this with a comprehensive victory in upper house elections in July 2013, with the LDP governing coalition now controlling 135 of the 242 seats.

The reputation of the DPJ administration's leadership was badly damaged by a series of events following the 2011 earthquake, with public perception that it was slow to deal with the resulting nuclear crisis. The continued fallout, together with dwindling public finances and the spiraling value of the Japanese yen complicated the challenge of uniting a coalition of political partners. These problems all contributed to the electoral defeat for the DJP in December 2012, which only managed to retain one fifth of its representatives in parliament.

Another political issued faced by the Abe administration is Japan's diplomatic relations with both South Korea and China. Relations had already soured during Abe's previous term in office, following controversial remarks concerning World War II. There is also an ongoing dispute with China over ownership of the uninhabited Senkaku islands reignited, leading to growing anti-Japanese sentiment in China. 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. Furthermore, in July 2014 Abe announced that Japan's defense forces would be permitted to fight overseas, the first time this has been allowed since 1945.

In November 2014, Abe announced a snap parliamentary election held in December following Japan's continued poor economic performance. Abe's LDP administration retained its large parliamentary majority giving the government a fresh mandate to pursue their economic reforms.

On May 27, 2016, President Obama visited the Hiroshima Peace Memorial Park, the first visit by a sitting US president. On November 18, 2016, Prime Minister Abe became the first head of government to meet with US President-Elect Donald Trump in an unofficial meeting while in New York.

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 23.9% (expected to reduce further on April 1, 2016) 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 6% of taxable profits, 0.72% of a 'value-added' factor and 0.3% 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 32.11% (expected to reduce on further April 1, 2016).There is no alternative minimum tax.

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 25% 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 25% of the shares, or holds 25% 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 80% of a company's taxable income 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 nine years for NOLs incurred during fiscal years ended on or after April 1, 2008. 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 (for the period between April 1, 2011, and March 31, 2016). 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%	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 75 jurisdictions through 67 double tax treaties and nine TIEAs (www.eoi-tax.org, January 2016).

On January 27, 2016, Japan, as part of the OECD/G20 Base Erosion and Profit Shift (BEPS) initiative, signed a multilateral co-operation agreement with 30 other countries (“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.

Other signatory countries are:-

- Australia, Austria, Belgium, Chile, Costa Rica, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Liechtenstein, Luxembourg, Malaysia, Mexico, Netherlands, Nigeria, Norway, Poland, Portugal, Slovak Republic, Slovenia, South Africa, Spain, Sweden, Switzerland and United Kingdom.

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.

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.

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% 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 social security premium (borne by the employer and the employee on a 50:50 basis) includes health insurance (9.85–10.16%) and welfare pension insurance (16.766%). There are upper limits for the amount of remuneration to which these rates are applied. Other premiums are workers' accident compensation insurance, where the entire premium is borne by the employer (from 0.25%, the rate varying according to the nature of the business activity), and employment insurance, normally a 1.35% premium, with 0.85% borne by the employer and 0.5% by the employee. The highest combined employer portion is approximately 15.720%.

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

All tax information supplied by Deloitte Touche Tohmatsu and Deloitte Highlight 2016 (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 2007, as amended 2011). 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 Office (JAFIO), 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 January 2016.

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Banking Sector Structure

Major Domestic Banks

Bank	Total assets (USD million) March 31, 2016
Japan Post Bank	1,839,762
The Bank of Tokyo-Mitsubishi UFJ	1,779,394
Sumitomo Mitsui Banking Corp	1,602,991
Mizuho Bank Ltd	1,431,629
The Norinchukin Bank	889,044
Sumitomo Mitsui Trust Bank	458,601
Mitsubishi UFJ Trust and Banking Corporation	358,261
Shinkin Central Bank	311,812
Resona Bank Ltd	289,817

Source: www.accuity.com.

Overall Trend

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: 53 foreign banks have established 77 branches in Japan. Japan has an additional 16 trust banks, 16 bank holding companies and 15 "other" banks, such as internet banks.

As a result of Japan's economic decline in the 1990s and the consequent problem of bad debt of Japanese banks, the government embarked upon a program of financial sector reform from 1996 to 2001, designed to improve competitiveness both domestically and internationally. This led to the disappearance of many smaller regional banks and credit unions within Japan; there were also several mergers and acquisitions. There are four main city banks, providing the full range of banking services to corporate clients – The Bank of Tokyo-Mitsubishi UFJ, Sumitomo Mitsui Banking Corp, Resona Bank and Mizuho Bank.

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.

Due to the restructuring of the financial sector, there has been some significant merger activity among the larger domestic banks as well as the creation of new banks. In April 2002, Mizuho Financial Group merged with the Dai-Ichi Kangyo Bank, the Fuji Bank and the Industrial Bank of Japan to form two new banks – Mizuho Bank Ltd and Mizuho Corporate Bank. In May 2011, Mizuho

Financial Group announced its intension to merge Mizuho Bank Ltd and Mizuho Corporate Bank and this was completed on July 1 2013, reducing the number of large city banks in Japan to down from five to four. Sumitomo Mitsui Banking Corp merged with Wakashio Bank in 2003. The Bank of Tokyo-Mitsubishi merged with UFJ bank on January 1, 2006 and is Japan's largest bank in terms of assets. In April 2011, Sumitomo Trust & Banking and Chuo Mitsui Trust Holdings merged, creating Japan's largest trust bank. Recently, Japan's regulators have encouraged local bank consolidation, in order to shore up profits, limited by Japan's recent poor economic performance and Japan's continued falling population. In October 2015, Kagoshima Bank and Higo Bank Ltd merged operations. In March 2016, Bank of Yokohama merged operations with Higashi-Nippon Bank.

In the past, Japan's banks have mostly taken a conservative stance to overseas mergers, with many preoccupied with rebuilding their domestic operations. However, the global subprime loan crisis from 2008 largely avoided Japanese financial institutions, and Japan's well-capitalized banks were able to take advantage of the economic climate to extend their global reach. This has included Nomura's acquisition of the European operations of Lehman Brothers and Mitsubishi UFJ Financial Group taking a 20% stake in Morgan Stanley, occurring within days of each other in September 2008. During 2011 Mizuho Corporate Bank purchased a 15% stake in Vietnamese Bank Vietcombank and in January 2012 Sumitomo Mitsui Banking Corp invested approximately USD 93 million in US investment bank Moelis & Company, acquiring approximately 5% of the institution. However, some of Japan's banks were still affected negatively by the global financial slowdown, with a number of the larger banks experiencing a fall in profits during 2008 and 2009. In response, the government set aside approximately JPY 20 trillion to buy shares in the country's banks, should it be necessary.

Reforms continue to impact the banking sector in Japan. Following the passage of legislation under former Prime Minister Koizumi in 2005, the privatization of Japan Post, the world's largest savings bank and Japan's largest financial institution, was announced in October 2007. Preparations for privatization resulted in the separation of the business's deliveries, savings, insurance and counter services units in preparation for flotation on the stock market. Despite these plans being put on hold during the previous DPJ government's administration, the government has now started the privatization process, selling USD 12 billion worth of shares at the start of November 2015.

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. From October 14, 2008, BOJ-NET has been upgraded (RTGS-XG), to settle the high-value payments that are routed through the FXYCS payment system. Since November 14, 2011, a RTGS-XG upgrade has resulted in high-value payments (above JPY 100 million) processed by Zengin also being settled in real time in BOJ-NET and the incorporation of liquidity savings features, such as queuing and off setting functionality, in BOJ-NET. In October 2015, BOJ-NET was again upgraded with improved IT and processing flexibility and enhanced accessibility for international institutions. Since January 2014, BOJ has also started to implement an upgraded BOJ-NET system with final phase now completed. The new system provides longer operational hours and improvements to some features.

Operated by the Tokyo Bankers' Association (TBA), the Foreign Exchange Yen Clearing System (FXYCS) is the country's main RTGS clearing system for payments where non-residents are involved and those resulting from foreign exchange transactions. Both legs of a foreign exchange transaction can also be processed through Continuous Linked Settlement (CLS). There are seven Japanese banks that are Settlement Members of CLS Bank – Mizuho Corporate Bank, Sumitomo Mitsui Banking Corp, Sumitomo Trust & Banking Co, Norinchukin Bank, Mitsubishi UFJ Trust and Banking, Bank of Tokyo-Mitsubishi UFJ and Sumitomo Trust and Banking Co.

The Zengin Data Telecommunications System (Zengin System) is the country's main 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). A sixth Generation Zengin System commenced operations from November 2011 with enhanced functions, such as a new file transfer system, real-time gross settlement (RTGS) for high-value payments (above JPY 100 million) and XML format payment messages. A further update to Zengin System is currently in development, which will see the system operate continuously, seven days a week, via a new platform.

In addition, 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, of which the Tokyo Clearing House is the largest. The Tokyo Clearing House handles 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	509 direct participants (September 2016)
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	201 (2015)
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 above JPY 100 million 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	08:30–15:30 on weekdays
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	1,296 (September 2016)
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	Operating hours of the Zengin System are being reviewed in order to realize 24/7 real-time payment of bank remittances via Zengin by around 2018.

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 312 participants, 106 direct and 206 indirect (2015).
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
	2014	2015	2015/2014	2014	2015	2015/2014
Checks	68.86	64.10	-6.9	332.66	299.03	-10.1
Debit cards	11.43	10.6	-7.3	0.46	0.43	-6.5
Credit cards	NA	NA	NA	46.27	49.83	NA
Credit transfers	1,558.35	NA	NA	2,967.79	NA	NA
Direct debits	NA	NA	NA	NA	NA	NA
Card-based e-money	4,235.38	4,827.73	14	4.20	4.79	14.0
Total	**5,874.02**	**4,902.43**	**NA**	**3351.38**	**354.08**	**NA**

Source: Bank for International Settlements, *CPSS – Red Book* statistical update, September 2016.

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 421.0 million in circulation at the end of 2015. There were 258.9 million credit cards in circulation in 2014. 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 2015, there were approximately 136,750 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 30.8 million instruments (including around 3 million electronic money instruments on mobile phones). There are also approximately 189,000 e-money terminals for transactions. 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. Furthermore, new legislation introduced from April 2010 has opened up the possibility of further e-money schemes being introduced in Japan. The Fund Settlement Act has removed restrictions on registered non-bank institutions engaging in some fund transfer business in Japan, meaning companies now do not need to enter into partnerships with banks before launching e-money schemes.

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 relatively new schemes, both introduced in April 2007. They have already become popular payment methods, with WAON 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. Launched in February 2013, 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 advances "impact" loans are available, at variable rates with LIBOR, TIBOR or Japanese prime lending rates.

Interest charged is at a margin over reference rates – the yen prime rate and London and Tokyo interbank offered 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 generally required for at least half the outstanding CP issued.

Tenors range from 14 days to one 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

The market for bankers' acceptances is inoperative.

Supplier Credit

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

Intercompany Borrowing, including Lagging Payments

Accommodation 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.

Demand Deposits

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

Time Deposits

Time deposits are popular short-term investment instruments in Japan. Banks offer them for terms from one month to ten 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 commonly 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.

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.

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.

Individuals can also invest in commercial paper.

Money Market Funds

Money market funds have become both increasingly available and popular to Japanese companies.

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.

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.

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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 Australia, Brunei, Chile, India, Indonesia, Malaysia, Mexico, Peru, Mongolia, the Philippines, Singapore, Switzerland, Thailand and Vietnam. It also signed an FTA with ASEAN, which came into effect on December 1, 2008. Japan is also negotiating agreements with Canada, Colombia, the EU and the Gulf Cooperation Council (GCC) countries (Bahrain, Oman, Qatar, Saudi Arabia, UAE and Kuwait), although talks with the GCC are currently postponed. It is also in negotiations for a three-party FTA between both China and South Korea.

Japan is set to join the Trans-Pacific Partnership (TPP), a proposed free trade agreement whose members would include Brunei Darussalam, Chile, Singapore, New Zealand, Malaysia, Peru, Vietnam, Mexico, Australia, Canada and the USA. A provisional agreement for the TPP was reached in October 2015 but ratification and implementation dates are yet to be set and the TPP is still is subject to legal and political approval in Japan .

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%.

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.

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