

The New Fund Settlement Law

Client Alert

Global

BAKER & MCKENZIE

October 2009

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New Law Allowing Foreign Non-Banking Entities to Engage in the Money Transfer Business in Japan

On June 17, 2009, the Japanese Diet passed a bill on fund settlements which could bring about remarkable changes in the fund settlement and the fund transfer businesses in Japan. The current Japanese Banking Act prohibits anyone other than licensed banking institutions from conducting money transfer services using cashless modes of money transfer. The new law will lift part of this restriction, enabling foreign entities which are engaged in the money transfer business in other countries ("Foreign Operators") as well as Japanese non-banking entities to conduct money transfer businesses to a limited extent. Although the Cabinet order which will specify the permitted amount of money has not yet been issued, the range is expected to be from 500,000 to 1,000,000 yen (approximately USD 5,500 to 11,000) per transaction.

Under the new law, anyone who satisfies certain conditions may register to engage in a money transfer business in Japan. Foreign Operators are required to maintain an office in Japan.

As part of the registration procedure, Foreign Operators must nominate a representative who is a resident of Japan. Foreign Operators are expected to offer much more reliable, reasonable and convenient money transfer services in Japan.

The new law contains several regulations that apply to money transfer operations. In order to protect customers in the event of an operator's bankruptcy, money transfer business operators must set aside a certain amount of money, either by depositing or entrusting a cash reserve, or by concluding a guarantee contract with certain financial institutions. Furthermore, there are other regulations regarding the secure control of confidential information with respect to money transfer businesses and proper supervision of agents of operators. It should be noted that unregistered Foreign Operators will be prohibited from soliciting customers in Japan for money transfer transactions (e.g. solicitation by an internet website on a server located in a foreign country).

The new law is expected to come into effect around June 2010.

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