

# License Application Support for Crypto-Asset Exchange Business

Responding to the expansion of the non-fungible token (NFT) market and an increase in the number of companies using it for business purposes, there has been a growing interest in the use of crypto assets, which have a variety of uses such as larger fundraising and payment methods.

However, unlike NFT, in order to treat crypto assets as a business, license with regulatory authorities and establishment of a strict regulatory compliance framework are required.

KPMG AZSA can provide advisory services that support license applications for crypto asset exchange businesses based on extensive knowledge of best practices in related to industries, relevant regulations including Payment Services Act.

## Process related to license application for Crypto-asset Exchange Service Provider

A prior consultation with the regulatory authority is needed before submitting the license application. In the prior consultation, a written answersheet stating the answers to the questionnaire will be submitted until there is no clarification. After the completion of the answer sheet, the process proceeds to the main process including interviews with officers and inspection. Upon completion of the main process, a license application will be received.

## \*Estimated process period

To shorten the time required for license screening, it is important to shorten the period before entering the main process.



## Main Attachments to Application License Form for Crypto-Asset Exchange Business (Extract)

- A document concerning the establishment of compliance structures to conduct properly and steadily the crypto asset exchange business
- Shareholders list, articles of incorporation and certificate of registered particulars or substituted documents thereof
- The latest balance sheet and profit and loss statement, or any substitute thereof
- A document stating the business plan related to the crypto asset exchange business in the three business years after the commencement of business
- Documents outlining the crypto assets handled
- Organization chart for crypto asset exchange business
- Policy & procedures related to crypto asset exchange business
- Contract documents used when conducting transactions related to the crypto asset exchange services with users
- If a part of the crypto asset exchange service is outsourced, the contract documents for the outsourcing

## Conduct control (main items of supervisory guidelines)

Crypto asset exchange service providers are required to establish a framework to deal with the following matters.

- Compliances
- Advertising
- Prohibited actions
- KYC
- Prevention of damage by anti-social forces
- User protection measures
- Account Segregation of money and crypto assets of users, and guarantee crypto assets
- Measures to the risk of leakage on crypto assets
- Information management for users
- Measures to the complaints
- System risk management
- Operational risk management
- Outsourcing

### \*About Self-regulation

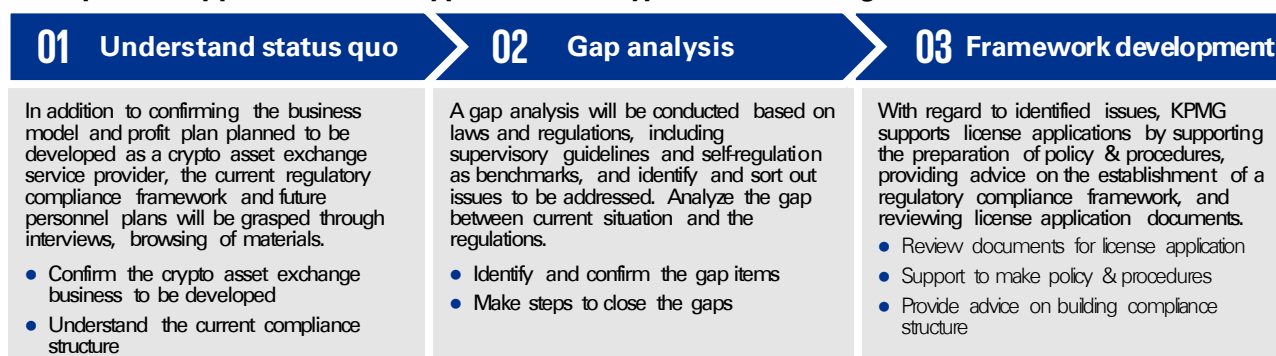
As one of the reasons for refusal of license, there are cases in which policy & procedures equivalent to the self-regulation rules established by the Japan Virtual and Crypto Assets Exchanges Association are not prepared or cases in which a framework to comply with the policy & procedure is not established. As a matter of fact, it is required to comply with the Association's selfregulatory rules.

## Examples of Factors that Prolong the Prior Consultation Period

The following should be avoided in order to proceed the license screening smoothly with taking expert advice.

- Cases in which the applicant has requested an external expert to prepare documents related to the application, and has only relied on a template prepared by the external expert, but has not conducted internal discussions based on the company's business content and plans
- Cases in which policy & procedures are not sufficiently developed and it takes time to review and amend
- Cases in which the appropriateness of the business plan cannot be reasonably explained
- Cases in which it is not possible to rationally explain the development of a framework for carrying out operations in a timely and appropriate manner due to no consideration on the risks that may be faced in executing the business plan
- Cases in which it is not possible to ensure the human resources and frameworks required by laws and regulations in order to carry out operations in a timely and appropriate manner.
- Cases in which measures to reduce the risk of fraudulent leakage of crypto assets, such as the concept of system configuration and specific administrative procedures for wallet operation management, are not presented.
- Cases in which the measures against money laundering and terrorist financing is limited to a templated response, and there is no evidence that the risk assessment report comprehensively and concretely verified risks such as the products and services provided by the company, the types of transactions, the countries and regions involved in the transactions, and the attributes of the customers. In addition, the risk assessment report does not indicate specific procedures for confirming transactions and methods for detecting, recognizing, and reporting suspicious transactions.
- In the case of segregated management, in addition to insufficient identification of the risk of mix-storage of cash and crypto assets, which are deposited by the user, there are no specific administrative procedures for daily collation work, etc.

## Example of Support to License Application for Crypto-Asset Exchange Business



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