



# Introduction of KPMG Japan's Web 3.0 Promotion Support Division



March 2023

# Overview of Web 3.0

## Major components of Web 3.0

Web 3.0 does not have an established definition. However, it is generally considered to mean the foundation that supports economic and social activities by providing the functions of transferring and exchanging financial value and information by means of public blockchains and smart contracts.

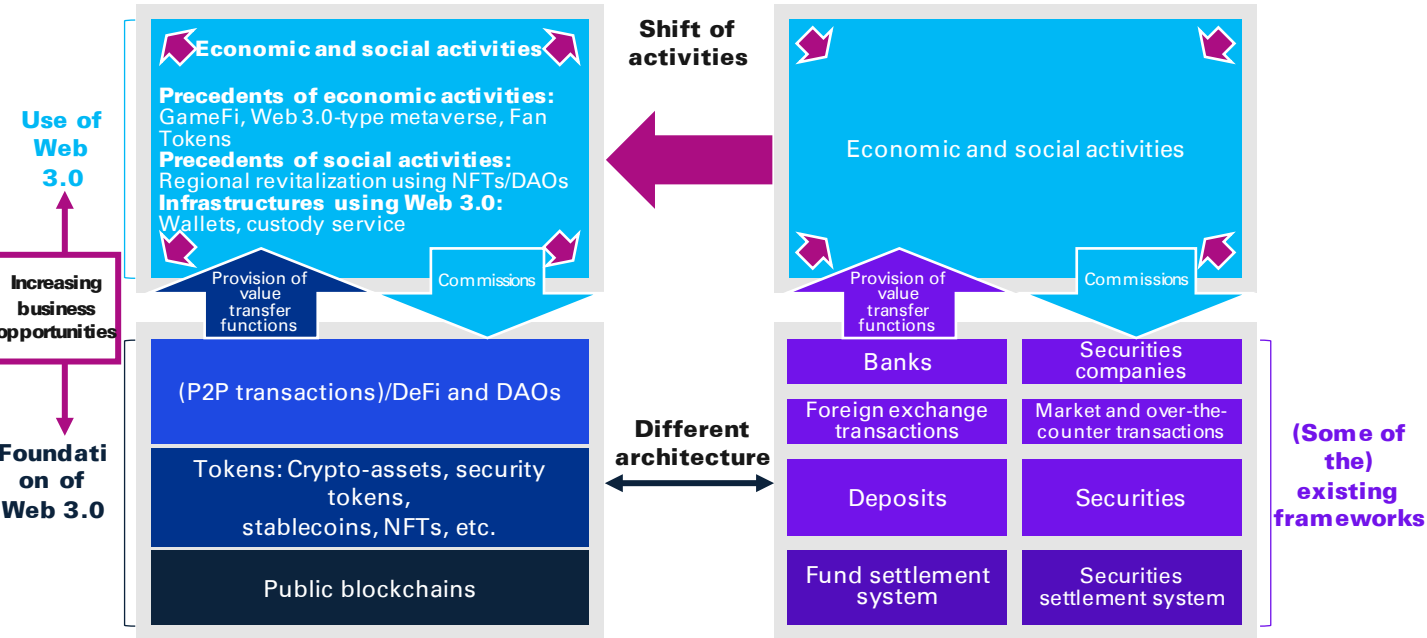
The major components of Web 3.0 are considered to include public blockchains and tokens based thereon, as well as decentralized finance (DeFi) and decentralized autonomous organizations (DAOs) that use smart contracts, as described below.

Major components of Web 3.0	Examples	Major use cases
DeFi DAOs	Aave, Compound, Uniswap	Lending, decentralized exchanges (DEXs), Protocol DAOs
Tokens/Digital assets	Crypto-assets	BTC, ETH, SOL, MATIC
	Security tokens	EIB bonds, INX Limited
	Stablecoins	USDT, DAI
	Non-fungible tokens (NFTs)	Nishikigoi NFT, LAND
Public blockchains	Bitcoin, Ethereum, Solana, Polygon	

## Generating new economic zones and business opportunities

Web 3.0 offers functions that serve as the foundation to support economic and social activities, such as transfer and exchange of financial value. These functions are provided by an architecture different from the existing frameworks, and therefore are generating new economic zones different from those based on the existing frameworks.

In addition, new products and services are continuously created by taking advantage of inexpensive costs related to transfer and exchange (including issue, segmentation and cross-border transactions) of financial value (tokens). Because of this, businesses using Web 3.0 and its market are rapidly expanding.



# Use and issues of Web 3.0 in business

## Features and characteristics of Web 3.0

Web 3.0 and the existing frameworks are the same in that they provide the functions of transferring and exchanging financial value. However, Web 3.0 has the features described in the table on the right-hand side, and it is considered that these features are first used in business as use cases.

In addition to transfer and exchange of financial value, DAOs allow token holders to participate in governance through the framework of decision-making by voting. DAOs have effects such as strengthening communities, leading to a wide range of applications.

Features of Web 3.0	Characteristics of Web 3.0 compared to the existing frameworks
Transfer and exchange of financial value without an intermediary	<ul style="list-style-type: none"> <li>Reducing costs in the value chains and accelerating the transfer and exchange of financial value due to no brokerage fees</li> <li>Distributing products and services that had not been distributed previously due to no intermediaries who select products and services (however, this may also increase the number of illicit and defective products)</li> </ul>
Inexpensive costs of issue, segmentation, transfer and exchange of tokens	<ul style="list-style-type: none"> <li>Facilitating the issue of tokens even with a small amount of financial value, increasing the number of issuers (such as small- and middle-sized companies, individuals, non-profit organizations and communities) and making more diversified assets tokens</li> <li>Enabling the purchase of and investment in a small amount of tokens due to the inexpensive costs of segmentation, transfer and exchange of financial value, and expanding the purchase of and investment in tokens to the mass retail segment</li> </ul>
Cross-border transactions	<ul style="list-style-type: none"> <li>Globally expanding the distribution of products and services, as well as the participation by purchasers and investors, mentioned above, and enhancing the effects expected from the above characteristics</li> </ul>

## Issues in using Web 3.0

Amid the shift of economic and social activities, it is inevitable for many companies to adopt Web 3.0. However, in using Web 3.0, which is a new architecture different from the existing frameworks, attention should be paid to different points regarding strategy formulation and business promotion as described in the table on the right-hand side, and therefore companies need relevant specialized knowledge and skills in many situations.

Area	Examples of issues arising from differences with existing frameworks
<ol style="list-style-type: none"> <li>Design and development of a business model</li> <li>Establishment of business strategies</li> </ol>	<ul style="list-style-type: none"> <li>Adoption to the shift of customer touch points from accounts to wallets</li> <li>Change in business models due to direct connection with customers without intermediaries</li> <li>Change in business, such as transactions with DAOs and use of DeFi</li> <li>Formulation of business strategies based on applied laws, regulations, and accounting and tax systems</li> <li>Evaluation of the blockchain wallet linked to a company's system</li> </ul>
3. Establishment of a business promotion framework	<ul style="list-style-type: none"> <li>Establishment of a framework to comply with applied laws and regulations</li> <li>Safe management of customer tokens and response to the leakage risk</li> <li>Change in required personnel</li> </ul>
4. Collaboration with external business operators	<ul style="list-style-type: none"> <li>Collaboration with business operators in the sectors related to Web 3.0 that have a size, corporate culture and experience different from those of conventional companies</li> </ul>

# KPMG Japan's Web 3.0 Promotion Support Division

## The establishment of KPMG Japan's Web 3.0 Promotion Support Division that supports clients in using and promoting Web 3.0

To meet clients' increasing needs related to the use of Web 3.0 based on blockchains and smart contracts, KPMG Japan has established the Web 3.0 Promotion Support Division by expanding the scope of the former Fintech Innovation Division to Web 3.0.

<b>Name</b>	<b>Web 3.0 Promotion Support Division</b>
<b>Examples of new major services</b>	<ul style="list-style-type: none"> <li>• Support related to Web 3.0</li> <li>• Support in establishing a framework to comply with laws and regulations on Web 3.0</li> <li>• Accounting and tax advice for business using blockchain technologies</li> </ul> <p>*Services related to Fintech continue to be provided.</p>
<b>Date of establishment</b>	September 1, 2022
<b>Key members</b>	<p>Division head: Kenji Hoki (KPMG AZSA LLC)</p> <p>Deputy division head: Tatsuji Fujii (KPMG Consulting Co., Ltd.)</p> <p>Core member: Tomokazu Sekiguchi (KPMG AZSA LLC)</p> <p>Core member: Naoto Watanabe (KPMG Tax Corporation)</p>
<b>Number of personnel</b>	Approximately 80 people

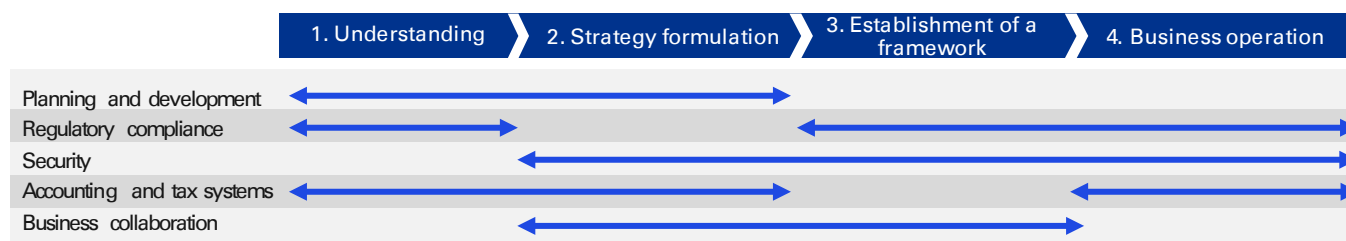


The members of the respective entities that provide Web 3.0-related advisory horizontally cooperate with each other in:

- Sharing knowledge;
- Participating in industrial groups;
- Making proposals to clients;
- Providing advisory;
- Providing seminars and information;
- Taking initiatives in respective industries; and
- Cooperating with overseas KPMG member firms.

## Supporting the promotion of activities to use Web 3.0 for companies' business

For issues that our clients may face when using Web 3.0 for their business, KPMG offers one-stop support in obtaining specialized knowledge required in each of the following phases:



## Knowledge required in each phase

- 1. Understanding of Web 3.0:** Knowledge in characteristics that should be incorporated in a business related to the new architecture, Web 3.0 and matters that should be noted when using Web 3.0 (such as leakage risk), as well as knowledge in laws, regulations, and accounting and tax systems, which is indispensable to formulate business strategies
- 2. Formulation of business strategies:** Knowledge in (1) the understanding of Web 3.0; (2) the formulation of business strategies and the definition of system requirements based on the impact on existing businesses as well as the management policies; and (3) the establishment of a network that contributes to the procurement of necessary resources (including collaboration with external business operators)
- 3. Establishment of a promotion framework:** Knowledge in (1) the establishment of a framework necessary to comply with regulations based on strategies; (2) the establishment of security measures; and (3) business cooperation and other executions
- 4. Business operation:** Knowledge in (1) the sophistication of a management framework to address issues that occur after the beginning of operation; (2) response to changes in regulations; and (3) security sophistication

▶ The major services provided by the entities belonging to KPMG Japan's Web 3.0 Promotion Support Division are described in the next slides.

# Advisory service provided by KPMG Japan's Web 3.0 Promotion Support Division

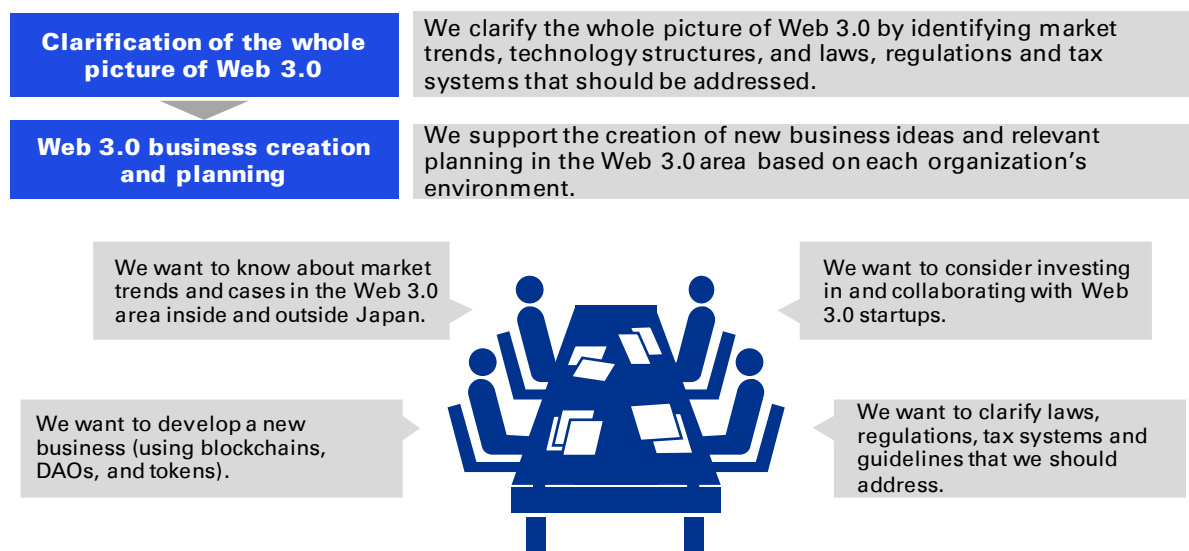
	Service name	Overview	
Planning and development support	01 Web 3.0 business creation session	Support on the creation of new business ideas using Web 3.0 and relevant planning by leveraging our expertise in new business development, strategy formulation, laws and regulations, as well as accounting and tax	P.6
	02 DAO organization and management support	Consistent support on the formulation, development, and sophistication of business strategies using a DAO	P.7
	03 Support on regional revitalization using Web 3.0	Support on the promotion of regional revitalization projects based on our wealth of knowledge in Web 3.0, including tokens (such as NFTs) and DAOs, as well as regional revitalization	P.8
Regulatory compliance support	04 License application support for crypto-asset exchange business	Support on the license application for crypto-asset exchange business based on our extensive knowledge in the Payment Services Act, government orders and administrative guidelines	P.9
	05 Support on establishment of risk management framework related to ownership of digital assets	Support on the establishment of a risk management framework for companies owing digital assets based on our high level of knowledge in public blockchains	P.10
	06 Response to fraud and misconduct	Support on the diagnosis and sophistication of a management framework for bribery risk, third-party risk and fraud risk, as well as on fraud investigation and recurrence prevention	P.11
Security response support	07 Blockchain foundation evaluation service	Evaluation of the risks and measures for the system that serves as the foundation of the Web 3.0 service, and support on the development of improvement measures	P.12
	08 Threat scenario analysis and countermeasure development service	Evaluation of the effectiveness of countermeasures and a response framework for threat scenarios developed by cyber specialists, and support on the development of improvement measures	P.13
	09 Threat intelligence service	Analysis and evaluation of data from information sources including the dark web, report of threats and support in taking down threats	P.14
Business collaboration support	10 Support for business establishment and synergy creation (CDD, BDD and PMI)	Support on market analysis, business establishment, technical analysis, business plan development and post-investment synergy creation for businesses related to crypto-assets, tokens and NFTs	P.15
	11 Advisory on M&A projects	Financial advisory and various types of due diligence on sourcing and project management, as well as valuation inside and outside projects	P.16
Accounting and tax support	12 Consultation on accounting and tax issues arising from using digital assets	Advisory on complex accounting and tax issues related to digital assets, including crypto-assets, in cooperation with accounting and tax specialists	P.17

Web 3.0 is attracting attention as it creates new services and businesses, and many startups using its technologies have emerged. In the area of Web 3.0, there are various matters that should be considered, including the understanding of market trends and response to laws, regulations and tax systems.

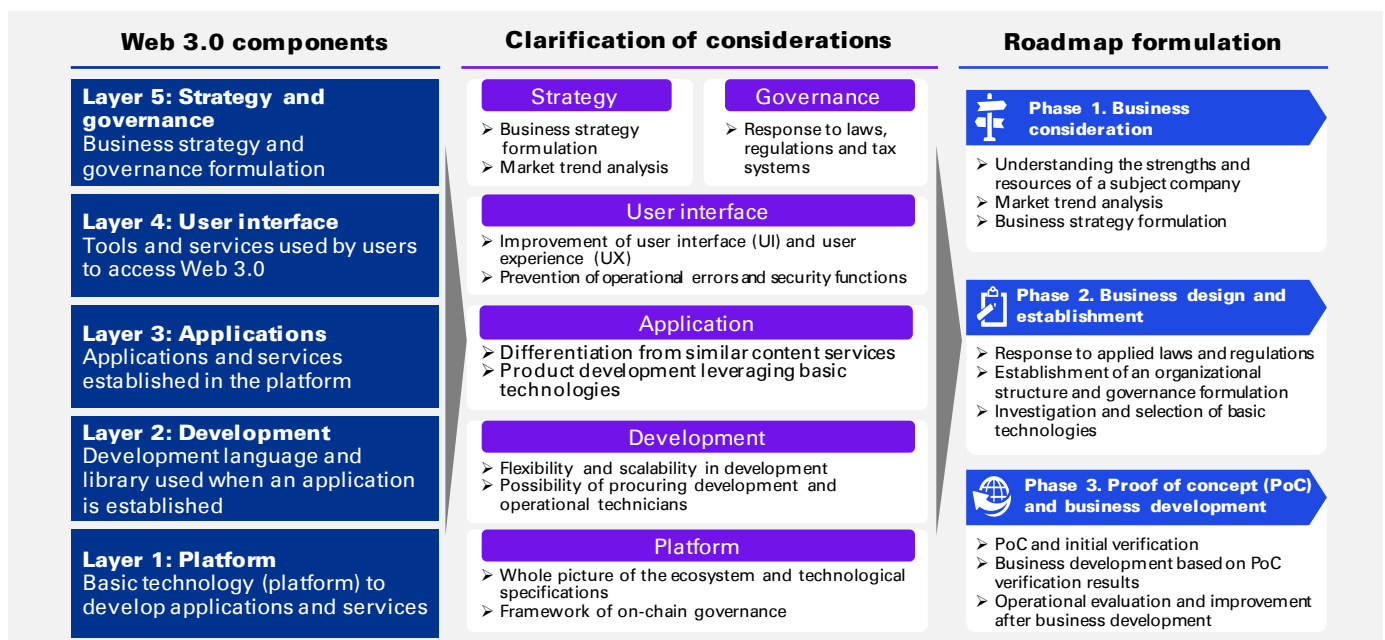
KPMG provides support on the creation of new business ideas and relevant planning while leveraging the specialized knowledge we have acquired through new business development and strategy formulation support and regulatory response, as well as accounting and tax practices.

We assist the development of an optimal roadmap by first layering the Web 3.0 components and then clarifying considerations, including business strategy formulation based on market trends, response to laws, regulations and guidelines, and the identification and understanding of core technologies (such as blockchain technologies).

## Web 3.0 business creation session



## Examples of approaches to Web 3.0 business creation





There has been an interest in businesses using digital assets (such as crypto-assets and NFTs) and DAOs inside and outside Japan.

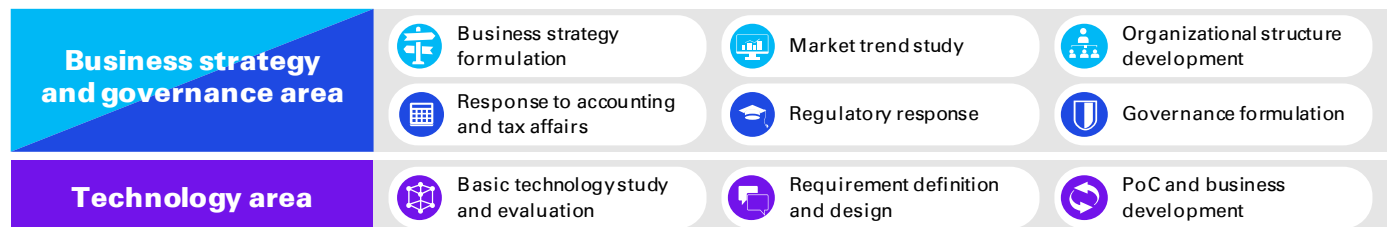
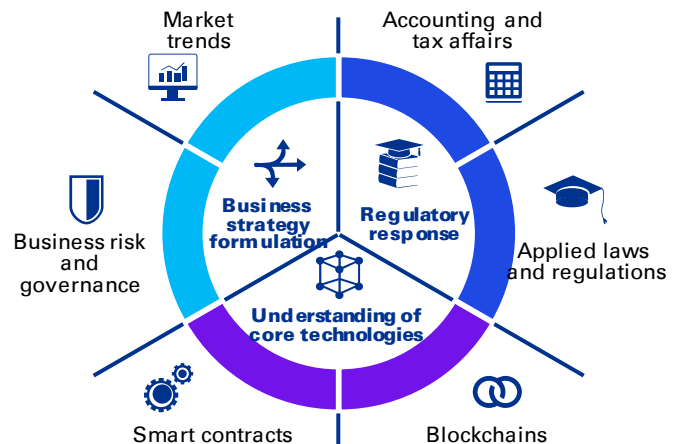
KPMG provides one-stop support in various industries on the formulation, development and sophistication of business strategies using a DAO while leveraging the specialized knowledge we have acquired through new business development and strategy formulation support and regulatory response, as well as accounting and tax practices.

## Matters that should be considered in a business using a DAO

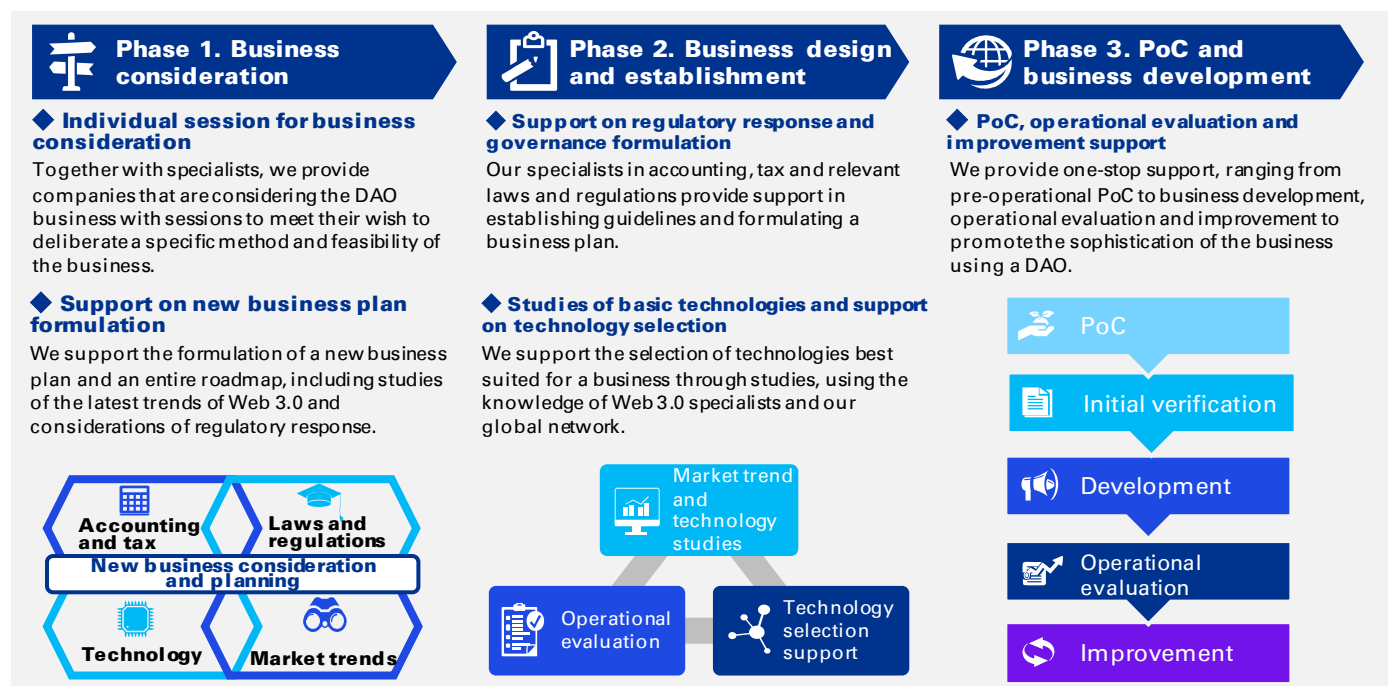
To effectively promote a business using a DAO, it is important to understand dramatically changing market trends (including crypto-assets) and formulate appropriate business strategies. It is also indispensable to respond to applied laws and regulations and understand core technologies, such as blockchains and digital assets (crypto-assets and NFTs).

## Support by KPMG

KPMG provides one-stop support on the formation, development and sophistication of business strategies by using our specialized knowledge in regulatory response and accounting and tax affairs, as well as our wide network and extensive support experience in the technology area, including blockchains.



## Business development roadmap



There has been an increasing interest in regional revitalization using Web 3.0 (including NFTs and DAOs).

As the Japanese population is decreasing and the measures to promote settlement and the start of businesses in a region are at their limits, regional revitalization initiatives have been expanded. These initiatives include efforts to increase the number of digital residents and create business opportunities through financing by means of NFTs and DAOs, as well as community revitalization.

Using our wide network and wealth of knowledge in Web 3.0 (including NFTs and DAOs), KPMG provides advisory service to support communities aiming for regional revitalization based on relevant laws, regulations and guidelines.

## For using Web 3.0 for regional revitalization, it is necessary to understand Web 3.0 technologies, laws and regulations

To effectively use Web 3.0 (including NFTs and DAOs) for regional revitalization, it is indispensable to understand new technologies and features, including blockchains and governance tokens, as well as relevant laws and regulations that may be applied.

If a company does not have specialized knowledge, it is necessary to actively collaborate with external business operators having professional skills. However, it is not easy for a company with a short history in a new industry to reach an appropriate collaborator.

It is also necessary to establish a risk management framework incorporating those technologies, laws and regulations, as well as collaboration with external business operators. KPMG has many specialists in relevant laws and regulations, accounting, tax and regional revitalization business, as well as a solid network in the Web 3.0 industry. We are able to provide one-stop support to address various issues.

## Possibility of application of financial laws and regulations related to tokens and governance tokenization

Among the Web 3.0 components, NFTs subject to a few regulations are often used. However, larger businesses need to use tokens subject to more regulations. Attention should be paid to the fact that governance tokens used for

DAOs may fall under tokens other than NFTs (e.g., security tokens) depending on the remuneration system.

Major type of tokens	How tokens are regulated in Japan	Governance tokenization
Cypro-assets	Regulated by the Payment Services Act	Possible
Security tokens	Regulated by the Financial Instruments and Exchange Act	Possible
Stablecoins	Regulated by the Payment Services Act	Basically not expected
NFTs	Treated as part of the tokens that do not fall under any of the above	Possible

## Examples of support services for regional revitalization using Web 3.0

01 Identification, understanding and sophistication of the current situation	02 Response confirmation, planning and promotion system establishment	03 Implementation and initial verification
<p>We identify the strengths and the current resource situation by organizing past activities and achievements. We also promote the understanding of Web 3.0, including NFTs and DAOs, to refine and sophisticate a scheme.</p> <ul style="list-style-type: none"> <li>• Organization of past activities and analysis of the current situation</li> <li>• Promotion of the understanding of Web 3.0 characteristics</li> <li>• Refinement and sophistication of a scheme</li> </ul>	<p>We confirm the matters to be addressed based on the scheme, offer advice on the method of procuring resources necessary for project execution and review the establishment of a project promotion system and the process chart.</p> <ul style="list-style-type: none"> <li>• Confirmation of the policies for matters to be addressed</li> <li>• Review of the resource procurement plan</li> <li>• Review of the project promotion system and the process chart</li> </ul>	<p>We verify the results of the pre-production tests, such as substantive experiments, based on the process chart and provide advice on corrections, as well as matters selected during the initial verification after the start of the project.</p> <ul style="list-style-type: none"> <li>• Verification of the results of test trials</li> <li>• Advice based on the verification results</li> <li>• Initial verification after the implementation of measures</li> </ul>



# License application support for crypto-asset exchange business

Responding to the expansion of the NFT market and an increase in the number of companies using NFTs 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 NFTs, to conduct crypto-asset exchange business, companies need to file a license application with the regulatory authorities and establish a strict regulatory compliance framework, which requires specialized knowledge.

KPMG AZSA LLC provides advisory services that support license applications for crypto-asset exchange business based on our extensive knowledge in the best practices of related industries in accordance with the Payment Services Act, government orders and administrative guidelines, as well as self-regulations.

## Review process of a license application by a crypto-asset exchange service provider

A prior consultation with the regulatory authorities is conducted before submitting a license application. In the prior consultation, a company submits an answer sheet for the questionnaire publicly available. After it is confirmed that there is no correction to the answer sheet, the company proceeds to the main process involving interviews with officers and inspection. Upon completion of the main process, the license application will be accepted.

### \*Regarding the reduction of processing time

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



## Example of how support service is provided in relation to license application for crypto-asset exchange business

Based on our rich experience in providing support to crypto-asset exchange service providers (including license application) and relevant specialized knowledge, KPMG AZSA LLC is able to efficiently assist the establishment of a framework required for a crypto-asset exchange service provider, as described below.

### 01 Understanding of the current situation

In addition to confirming the business model and the profit plan to be rolled out by the crypto-asset exchange service provider, we understand the current regulatory compliance framework and future personnel plans by conducting interviews and inspecting materials.

- Confirmation of the crypto-asset exchange business to be rolled out
- Understanding of the current regulatory compliance framework

### 02 Organization of matters to be addressed

We conduct a gap analysis by setting laws and regulations (including government orders and supervisory guidelines), as well as self-regulations as benchmarks, and identify and organize the issues to be addressed.

- Gap analysis against the current situation
- Identification and confirmation of gap items
- Formulation of measures to close the gaps

### 03 Establishment of frameworks

For identified matters that should be addressed, we provide license application support by assisting the preparation of internal regulations, advising the establishment of a regulatory compliance framework (including internal management) and reviewing license application documents.

- Review of license application documents
- Support on the preparation of relevant regulations
- Advice on the establishment of a regulatory compliance framework

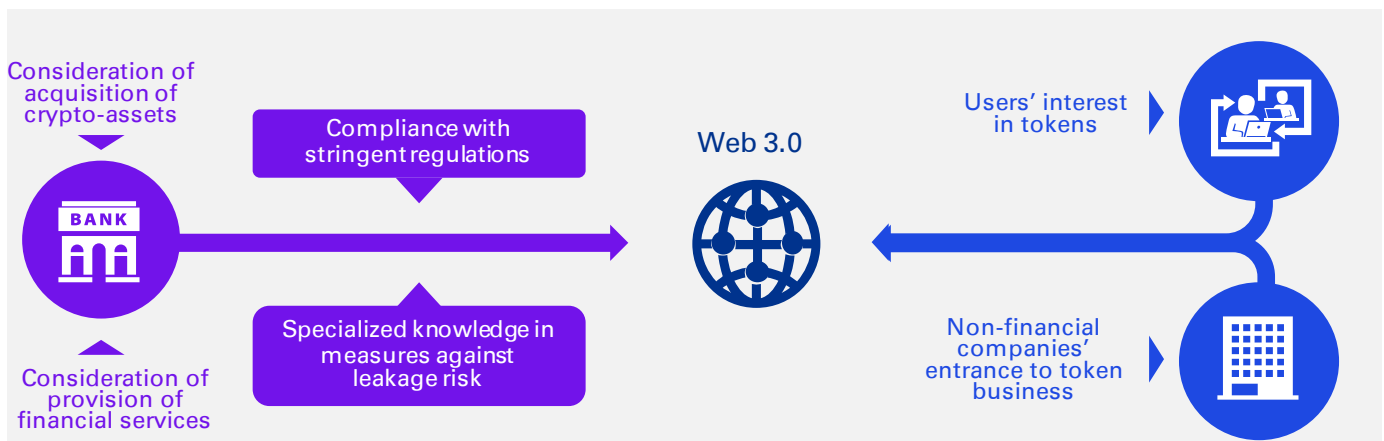
# Support on establishment of risk management framework related to ownership of digital assets

With the advancement of Web 3.0 based on public blockchains, more and more financial institutions consider conducting businesses that utilize tokens on blockchains (such as NFTs and crypto-assets) and DAOs, as well as experimentally acquiring crypto-assets and tokens by using their private funds.

However, financial institutions are subject to the stringent regulations, stipulating that the acquisition of crypto-assets shall be limited to the minimum extent. In addition, for the safe management of tokens on public blockchains, it is necessary to acquire a high level of knowledge and establish an internal management framework since there is a high leakage risk in the management of such tokens in a wallet.

KPMG AZSA LLC offers advisory services on the establishment of an internal management framework to financial institutions that acquire and manage tokens, including crypto-assets.

## New needs for financial services and matters to be addressed



## Stringent regulations on the ownership of crypto-assets and our support

In acquiring crypto-assets, a financial institution needs to comply with supervisory guidelines that limit the ownership of crypto-assets to the necessary extent and other stringent regulations that require the implementation of safety management measures against leakage risk.

Based on our wealth of knowledge and experience in handling crypto-assets, KPMG AZSA LLC provides the following support on the establishment of a framework to comply with applied laws and regulations:

## Examples of general steps in our support to establish an internal management framework for crypto-assets and tokens (3 to 5 months)

01 Understanding the current situation	02 Organization of matters to be addressed	03 Establishment of frameworks
<p>In addition to confirming the assumed business model related to tokens and laws and regulations that may be applied, we understand the current internal management framework by conducting interviews and inspecting documents.</p> <ul style="list-style-type: none"> <li>• Confirmation of the details of the token business</li> <li>• Confirmation of applied laws and regulations*</li> <li>• Understanding of the current internal management framework</li> </ul>	<p>We perform a comparative and gap analysis against the current situation by setting laws and regulations applied to financial institutions and supervisory guidelines as benchmarks, identify matters to be addressed and confirm the policy for such matters.</p> <ul style="list-style-type: none"> <li>• Gap analysis against the current situation</li> <li>• Identification and confirmation of gap items</li> <li>• Confirmation of the policy for gap items</li> </ul>	<p>Using our specialized knowledge, we provide advice on the establishment of draft internal regulations and an internal management framework in accordance with the response policy and support the establishment of other necessary frameworks.</p> <ul style="list-style-type: none"> <li>• Drafting of relevant regulations</li> <li>• Advice on the establishment of an internal management framework</li> </ul>

When a bribery risk, third-party risk or any other fraud or misconduct risk materializes, a company's business will be affected significantly. For example, the company may bear an unexpected burden of the investigation to confirm facts and necessary response, or may be subject to instructions, a fine or a disciplinary action imposed by the authorities. In other cases, the company's reputation may be damaged, or its profitability and share prices may decrease. Based on our rich experience and knowledge in risk management, KPMG provides support related to the measures to prevent the above risks from materializing and subsequent responses, as described below.

## Risk assessment

Risk assessment is an important activity that serves as the basis for efficient and effective response (risk-based approach), making the most of limited economic and personnel resources. The method of organizing and assessing risks differs depending on the risk area and purpose. We provide the following support by taking into account the relevant laws, regulations, guidance, the business details and plans, and the external environment, as well as industrial practices:

- Consideration and design of a risk assessment method
- Implementation of a risk assessment (reduction of risks and preparation of a heat map of risks and a risk assessment report)
- Subsequent review of risk assessment results (review of risk assessment results and response to sophistication)

## Diagnosis of the current risk management framework and gap analysis

For subject risk themes, we determine the target level (benchmark) of the company based on laws, regulations and guidelines of other countries, as well as precedents in the relevant industries. We then analyze the current organizational frameworks, including controls.

We prepare an effective action plan for the identified gaps based on the viewpoints to be considered, characteristics of immediate risks and available management resources, as well as preceding practices.

## Support for designing and introducing controls

We provide support in designing and introducing a system of controls to address (prevent, discover and resolve) risks and reviewing existing controls based on laws, regulations and guidelines of other countries, as well as precedents in the relevant industries.

## Testing and monitoring support

In any risk management activity, it is important to regularly confirm whether the controls introduced are appropriately operated and effective. It is also important to continuously implement a plan-do-check-act (PDCA) cycle for necessary sophistication by monitoring potential risks. KPMG provides the following support related to activities to monitor operations in compliance (second line of defense) and internal audit (third line of defense):

- Design and introduction of a testing system
- Formulation of testing procedures and manuals
- Testing
- Formulation of improvement measures based on testing results
- Review of the testing system

## Fraud and misconduct investigation

In recent years, society has cast a stern eye toward the subsequent responses of companies that have committed fraud or misconduct. If any fraud or misconduct occurs, companies are required to minimize the damage, thoroughly clarify facts, and formulate and implement appropriate measures to prevent recurrence. Accordingly, KPMG provides support related to the following:

- Formulation of an audit system and an audit plan
- Dispatch of investigation committee members
- Maintenance and recovery of evidence, such as electronic data
- Investigations (e.g., inspection and analysis of transaction data, relevant documents and emails, site investigation to confirm inventories, and interviews with relevant personnel)
- Estimation of the amount of damage and impact
- Formulation, operation and monitoring of measures to prevent recurrence
- Preparation of an investigation report
- Reporting to authorities, press release and response to lawsuits

Systems using blockchains adopt technologies that were not used for previous systems, such as peer-to-peer (P2P) networks and distributed ledgers. Therefore, there are various distinctive risks related to technical elements. When establishing a system, it is necessary to understand and identify system risks unique to blockchain technologies and implement countermeasures.

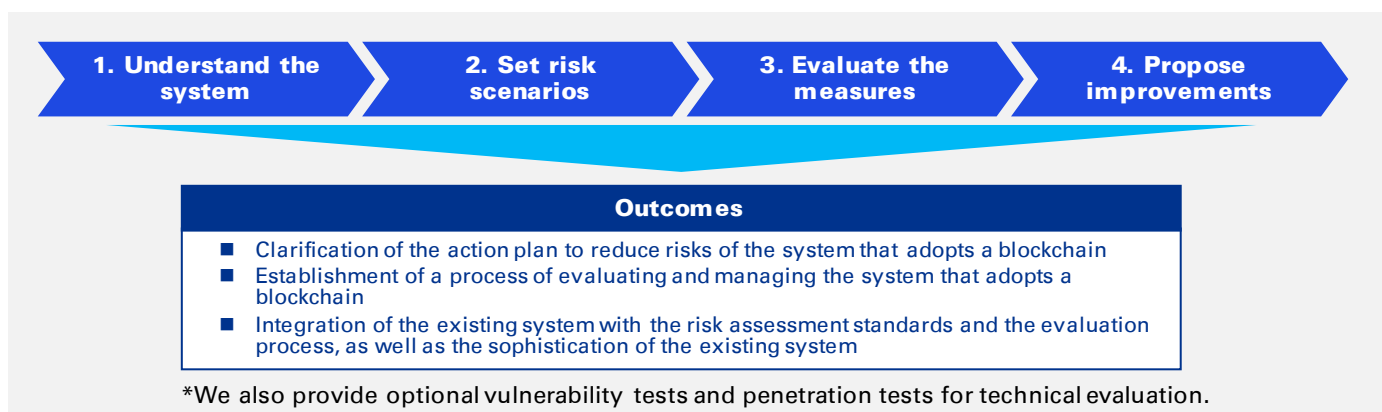
KPMG objectively evaluates the entire ecosystem that adopts a blockchain or the information system of the blockchain foundation supporting the ecosystem from a third-party perspective. Moreover, we provide support in maximizing the effect of using a blockchain as expected by companies, by performing an evaluation suitable for the purpose and the situation.

### Examples of risks and measures related the use of a blockchain

Technical elements and risk examples				
	P2P network	Distributed ledger	Chain data structure	Concealment of transactions
	(1) Discrepancy in ledgers due to a network partition	(2) Decrease in the processing ability due to insufficient block volume	(3) Risk arising from transaction data corrections	(4) Leakage and loss of private keys
Technical measures	<ul style="list-style-type: none"> <li>■ Establishing a framework for a non-disruptive network (a multilayer network, redundant devices and virtualized environment)</li> <li>■ Enabling a failure test for the risk</li> </ul>	<ul style="list-style-type: none"> <li>■ Designing the size of the domain storing transaction data within the block</li> <li>■ Verifying the projected increase in volume against the domain size</li> </ul>	<ul style="list-style-type: none"> <li>■ Formulating a transaction data backup plan</li> <li>■ Establishing procedures for storing backup data</li> </ul>	<ul style="list-style-type: none"> <li>■ Technical measures for layered defense</li> <li>■ Technical measures for private key management</li> </ul>
Operational measures	<ul style="list-style-type: none"> <li>■ Establishing a framework to detect failures</li> <li>■ Preparing a recovery plan and procedures in the event of a failure</li> <li>■ Recovery training</li> </ul>	<ul style="list-style-type: none"> <li>■ Establishing a framework to monitor the block size</li> <li>■ Establishing operational rules for domain extension</li> </ul>	<ul style="list-style-type: none"> <li>■ Establishing a framework to detect failures</li> <li>■ Preparing a recovery plan and procedures in the event of a failure</li> <li>■ Recovery training</li> </ul>	<ul style="list-style-type: none"> <li>■ Establishing operational rules for private key management</li> </ul>

### Evaluation approach

We set risk scenarios considering the characteristics of the subject system, perform an evaluation and propose improvements.



# Threat scenario analysis and countermeasure development service

The technologies of services using blockchains reduce privacy and cyberattack risks. However, there still remains the risk that the blockchain architecture, the cloud of the service foundation or mobile applications are exposed to attacks.

KPMG provides support to ensure service security by formulating threat scenarios from an attacker's viewpoint, verifying the feasibility of the scenarios and developing measures.

## Setting threat scenarios

We analyze cyberattack threats that may cause damage (risk) on business and operations by using threat intelligence and develop cyberattack procedures to realize the threat scenarios from a professional perspective.

### Determination of an attack target

We analyze the damage (risk) on business and operations that may be caused by a cyberattack and determine an attack target.

- Theft of client information
- Theft of important and confidential information
- Destruction of important systems
- Complicity in attacks

### Threat intelligence

We collect potential threat information on the surface web.

\*As options, we provide extensive research, ranging from the internet (high layer) to the dark web (deep layer), which is commercialized by criminals, and assessment of potential impact by using our OSINT tools (e.g., KPMG Digital Insight Platform).

### Formulation of threat scenarios and attack procedures

We develop threat scenarios and attack procedures to achieve the attack target based on the concepts of Cyber Kill Chain® and MITRE ATT&CK®.

## Verification of the feasibility of threat scenarios

In cooperation with KPMG's global network, our experienced white-hat hackers set threat scenarios considering the characteristics of the services subject to the assessment, evaluate the network system configuration and propose improvements. They also perform a penetration test, as needed, to verify the technical feasibility of security measures against threat scenarios.

### Examples of characteristics of services using blockchains



#### Difficulty in security updates

- It is difficult to control security updates on the users' side.



#### Complex ecosystem

- There are a wide variety of components, such as communications, networks, interfaces and users.



#### Various attack routes

- Blockchains are used in various services and systems, and there are various attack routes and methods.



#### Development in infrastructure

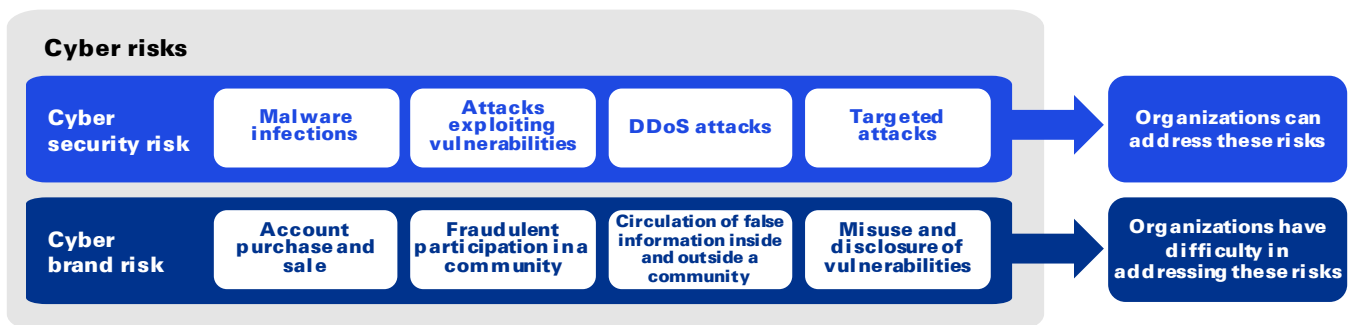
- Services using blockchains are part of the social infrastructure that require high availability.

\*Company and trade names in this slide may be trademarks or registered trademarks of the respective companies.

As cyber threats have become more complex in recent years, organizations increasingly take measures against cyberattacks. Organizations have also started to recognize the risk of brand damage arising from the misuse of their websites and information on the internet (hereinafter “cyber brand risk”). KPMG provides companies with advice on the prevention of such risk through “threat intelligence,” which is the activity of collecting and analyzing threat information that could lead to cyber brand risk. We also provide support to address the risk that has materialized.

### Issues surrounding cyber brand risk

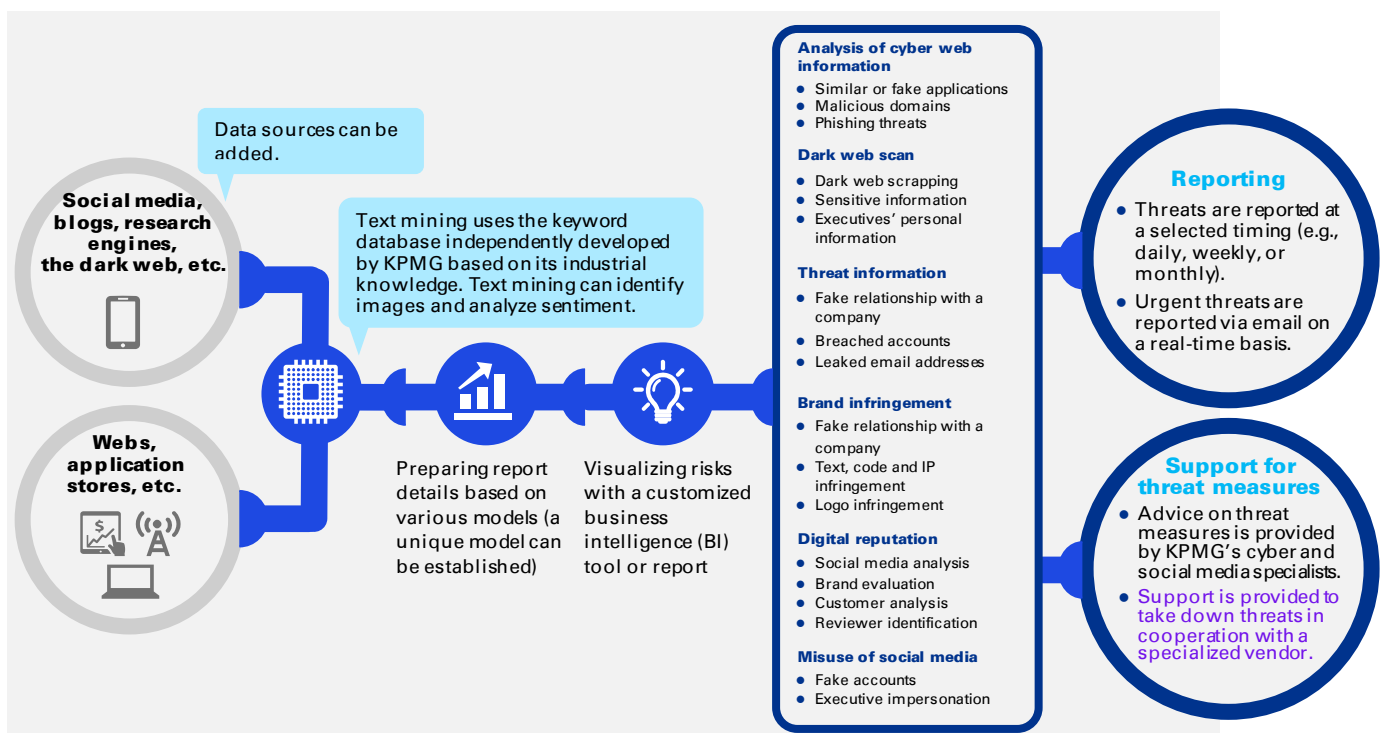
Organizations can respond to the so-called cyber security risk, such as malware infections and targeted attacks. However, it is difficult for them to identify and address cyber brand risk through their Security Operation Center (SOC) or Computer Security Incident Response Team (CSIRT).



### Support in monitoring and addressing cyber brand risk

We promptly report threats that could lead to cyber brand risk by analyzing and assessing data collected from various information sources (including the dark web) by

means of the analytical engine independently developed by KPMG. We also provide support to take down the detected threat sources that may have cyber brand risk.





# Support for business establishment and synergy creation (CDD, BDD and PMI)

In recent years, there have been high expectations for a financial business to act as a “next-generation business,” especially for the business closely intertwining business-to-customer (B2C) with business-to-business (B2B) due to the aging society and diversified payment methods.

Financial institutions are expected to have business models and operations that are significantly different from those of general non-financial companies, particularly in the establishment, acquisition and sale of a business, as well as the establishment of a joint venture. KPMG provides one-stop service not only for purely financial business, but also diversified business areas, such as various payment businesses linked to commercial distributions (including subscription payments and “Buy Now, Pay Later” (BNPL)), businesses conducted in accordance with the Financial Instruments and Exchange Act (other than conventional bank and loan businesses) and cryptocurrency business.

## M&A strategy (pre-merger)

When establishing, acquiring or selling a business, or establishing a joint venture, a company needs to analyze potential markets and existing players to understand the target market. A company also needs to conduct research and organize strategies in the areas of regulations, practices, profitability, governance and operation, as well as promotion. Accordingly, we provide support for clients’ decision-making including the following:

- Market and regulation research (in Japan and overseas)
- Benchmark analysis (business models and operations)
- Definition of a target business model and reasons for obstacles
- Deal structuring
- Acquisition of various approvals
- Preparation of an initial business plan

## Deal due diligence (business due diligence (BDD), customer due diligence (CDD) and operational due diligence (ODD))

During a project, we support all the matters necessary for the transaction period, including pilot investigation for the letter of intent (LOI), negotiation on the terms of the LOI, detailed review of the terms before the definitive agreement (DA) is concluded, and reflection of the terms in the business plan, valuation and contracts (including the DA).

We cover top-line strategies, sales promotion and channel strategies, as well as financial services such as credit review, collection, payment and financing strategies through various currencies, crypto-assets and other payment instruments.

- Business model study and analysis
- Study of technologies and evaluation of their level
- Operation study and analysis
- Preparation of a synergy plan
- Acquisition of various approvals
- Scenario analysis
- Preparation of a detailed business plan based on the balance sheet, the profit and loss statement and the cash flow statement, as well as the business type
- Consideration and simulation of risk scenarios
- Calculation models for various regulatory values

## Post-investment and post-sale strategy support (PMI)

For acquisition, investment and sale of a financial business, it is never easy to execute a project in accordance with a contract. It is particularly important to execute an overseas project or a project involving different businesses in a careful and speedy manner while negotiating with relevant parties regarding their requests and processes related to governance in order to realize expected synergies.

- Organization of requirements for the governance of affiliates and subsidiaries
- Organization of integration issues (reporting and decision-making systems)
- Process of integration operations
- Integration negotiations
- Consideration of systemization and definition of operational requirements

## New business establishment

In recent years, there have been expectations for various solution businesses incorporating financial business. Attention is particularly paid to the utilization of commercial distributions and external data, the streamline of a review process and collection operations, and the reinforcement of customer services. Our experienced members provide support for issues unique to new businesses, including procedures for approval application and response to authorities, as well as response to errors after the establishment of a business.

- Support for approval application with authorities
- Response to the securities business, the payment business, the installment business and the loan business
- Response to the latest laws on banking business (relaxation of regulations)
- Consideration of business concepts
- Organization of segregation of duties
- Preparation of the definition of business requirements
- Implementation of governance rules

## Buy-side and sell-side financial advisory services

For buy-side projects, we offer financial advisory services to guide acquisitions and investments to success, from origination to closing. For sell-side projects, we deliver services to achieve an effective sale process when a company strategically sells a business or exits from the investee.

### Buy-side financial advisory

Our major services include:

- Support in strategic M&A planning
- Searching for, screening and approaching target companies/sellers
- Deal management and advice
- Negotiation support
- Structuring support
- Due diligence coordination
- Valuation (to be explained later in this document)
- Matters to be addressed for post-merger integration (PMI)/post-deal business integration

### Sell-side financial advisory

Our major services include:

- Support in strategic business sale planning
- Searching for, screening and approaching candidate purchasers
- Initial consideration of a sales agreement
- Initial analysis of business value
- Support related to sales scheme considerations
- Deal management and advice
- Due diligence process coordination
- Establishment and operation of a data room and response to questions
- Negotiation support
- Support in preparing a sales agreement

## Valuation service (for transaction or accounting purposes)

For M&A and restructuring, we support clients' decision-making by offering various types of valuation from a third-party perspective. For post-acquisition accounting, we also provide service to assess tangible and intangible assets related to purchase price allocation and impairment testing.

## Various due diligence service

Pre-M&A due diligence is a valuable opportunity to directly understand the situation of the target company. KPMG provides strong support on the evaluation of clients' projects and investment decisions based on our rich experience and knowledge from a broad perspective.

### Financial due diligence

Financial due diligence involves an investigation of the target company's performance and financial position and the understanding of the current situation mainly related to the following:

- Normal profitability eliminating temporary effects on profits and losses and the consistency of past and latest operating results with future business plans
  - The level of operating capital required for business management and the cash flow status
  - Trends of past capital investment, and the future plan and necessity of capital investment
  - Impairment of significant assets and the status of off-balance and contingent liabilities
  - The status of stand-alone issues
- Based on the results of the above investigation, the purchaser can evaluate the project from the following viewpoints and make a decision:
- Consideration of the appropriateness of the future business plan proposed by the seller, and the appropriate purchase price based on such consideration
  - Prerequisites, the indemnification clause and the price adjustment clause that should be specified in the sales agreement
  - Matters to be addressed for PMI/post-deal business integration

### Tax due diligence

For tax due diligence, we investigate potential tax risks that the purchaser may take over after acquisition by understanding the target company's affiliates, related party transactions, past restructuring and non-recurring profit, as well as tax treatment of these items. In addition, upon a client's request, we simultaneously provide structuring advice to select the most suitable M&A structure from the purchaser's tax and economic perspective.

### Other due diligence

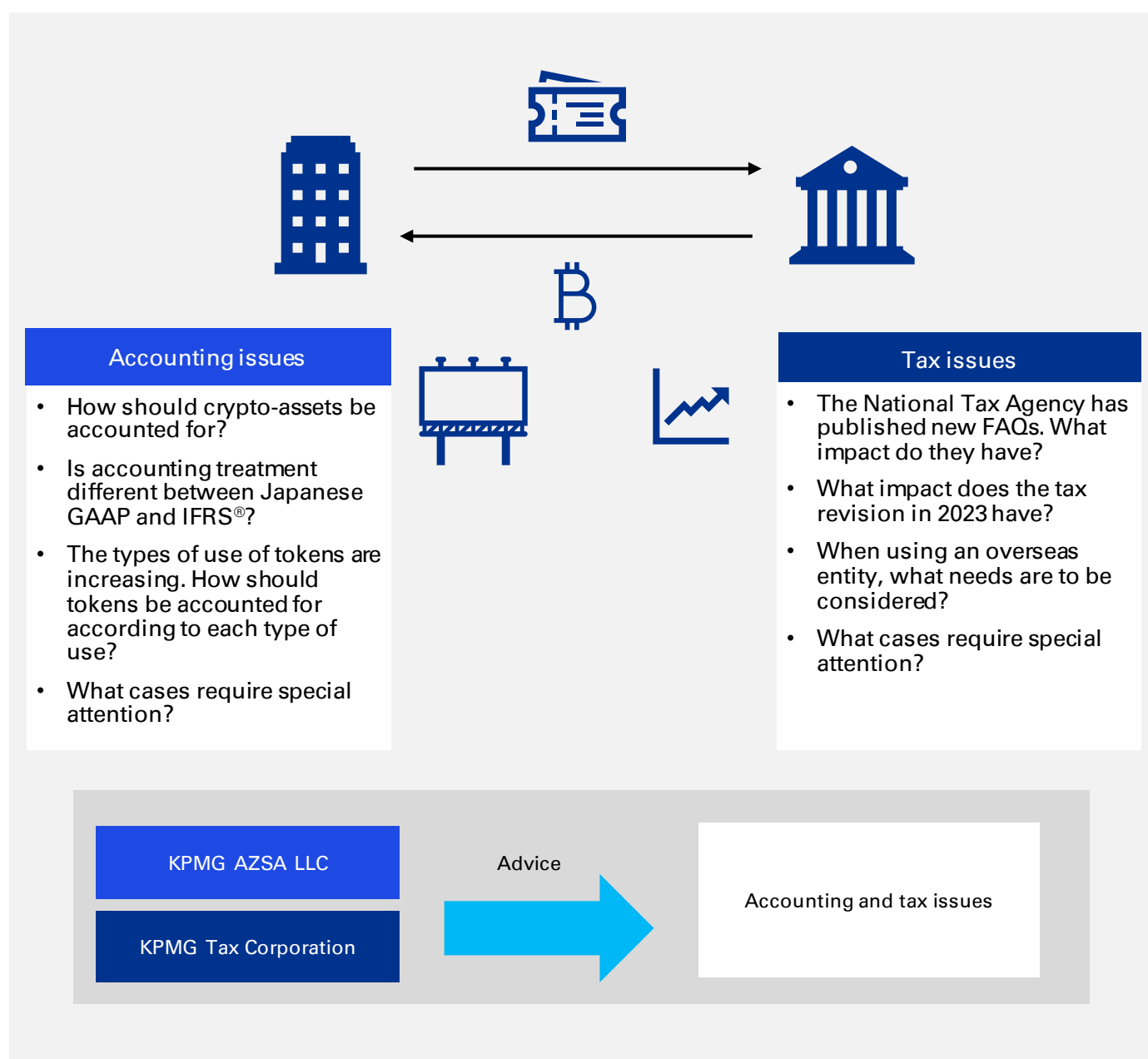
Depending on the necessity for each project, we provide solutions including due diligence in areas other than the above (investigation of backgrounds such as IT, human resources, environment, governance, compliance and management).

# Consultation on accounting and tax issues arising from using digital assets

The use of digital assets for business has grown recently. However, there is significant uncertainty about accounting and tax treatment of digital assets since they are a new type of assets. In addition, new treatments and interpretations of digital assets become available relatively frequently. It is noted that effectively addressing such a situation is an important challenge for companies to conduct business making good use of digital assets.

Moreover, since the treatment of digital assets for tax purposes is often different from country to country, a scheme using an overseas entity is adopted in many cases.

Accordingly, KPMG AZSA LLC and KPMG Tax Corporation have jointly established a system to provide advice on a one-stop basis regarding the response to the use of digital assets for accounting and tax purposes.



# Publication and activities of external committees

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### Publication

#### How will FinTech, cryptocurrencies and AI change financial institutions?

(BUSINESS KYOIKU SHUPPANSHA)

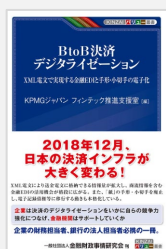
This book explains the future status of financial institutions that are compelled to have a structural shift due to information technology advancement, as well as the direction of financial business.



#### B2B Payment Digitalization

(Kinyu Zaisei Jigyo Kenkyukai)

- This book explains how companies should utilize financial electronic data interchange (EDI) based on the use of Extensible Markup Language (XML) for money transfer between companies.



#### Mechanism and practices of digital currencies and securities

- Business, law, accounting and tax

(CHUOKEIZAI-SHA HOLDINGS, INC.)

This book explains business trends, legal, accounting and tax affairs related to digital currencies, securities and other assets.



### Activities of external committees

- QUICK Virtual Currency Benchmark Research Committee: Virtual currency exchange service providers and specialists in financial instruments, accounting and laws have discussions to assist the development of benchmarks supporting virtual currency activities.
- Japan Cryptoasset Business Association (JCBA)
  - Advisor
  - Custody Working Group: For the custody of virtual currencies (crypto-assets) in Japan, this group compiles opinions on the establishment of a system that keeps a balance between user protection and sound market development.
  - Use Case Working Group: This group prepares a report to demonstrate the usefulness of crypto-assets in society and conducts activities to create use cases that lead to regional revitalization initiated by the JCBA.

### KPMG Japan Fintech Community

This membership community site aims to promote open innovation between domestic financial institutions and Fintech service providers. This community is joined by more than 90% of domestic banks, as well as many securities and insurance companies. It provides information and network opportunities through seminars held several times a month.



<https://fintech.smartcore.jp/>

### Web 3.0 Promotion Support Division, KPMG Japan



<https://kpmg.com/jp/ja/home/services/advisory/web3-promotion-support.html>

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