

License application support for Funds Transfer Service Providers

The environment for Funds Transfer Service Providers has changed significantly with the developments of the market.

Based on the revised Payment Services Act promulgated in June 2020, in addition to registering as a Type II Funds Transfer Service Provider, Type I Funds Transfer Service Providers who meet certain requirements are now able to provide exchange transactions without an upper limit on the remittance amount.

Furthermore, on October 7, 2022, the Japanese Banks' Payment Clearing Network (Zengin-net) extended the eligibility for participation in the Zengin System, which had previously been limited to banks and other deposit-taking financial institutions, to Fund Transfer Service Providers. On April 1, 2023, following the promulgation of a ministerial ordinance partially revising the Ordinance for Enforcement of the Labor Standards Act, the Ministry of Health, Labour and Welfare began accepting applications for designation from Funds Transfer Service Providers, and the payment of wages to the accounts of Funds Transfer Service Providers was permitted as a new option for labor and management regarding wage payment.

Moreover, in March 2025, the Financial Services Agency announced a draft amendment to the Payment Services Act. In consideration of international requests, ensure user protection, and address risks such as money laundering, cross-border payment collection services provided by the entities not involved in the conclusion of transactions for goods and services will, in principle, be regulated as Funds Transfer Service Providers.

KPMG AZSA LLC provides advisory services to support license applications for registration of Funds Transfer Service Providers based on a wealth of knowledge regarding best practices in related industries, and based on Payment Services Act, government ordinances, administrative guidelines, and self-regulations.

Process for reviewing applications for new registration of Funds Transfer Service Providers

Prior consultation with regulatory authorities is required, prior to submission of a formal registration application. In the prior consultation, the applicant submits a written response to a questionnaire presented by the authorities. After addressing any necessary amendments, the process moves forward to the key steps, such as interviews with officers and on-site inspections. After the main process is completed, the application for registration will be received.

- In addition to the regulations imposed for Type II Funds Transfer Services, Type I Funds Transfer Services must obtain approval for business implementation plans (Article 40 -2 of the Act).

Key factors for prolonged examination process

To ensure a smooth registration examination, it is necessary to avoid the following situations, and it is useful to obtain advice from experts in this regard.

- Cases in which the applicant has requested an external expert to prepare application related documents, but only relies on a template prepared by the external experts, and does not conduct internal review based on the company's business contents and plans
- Cases in which the feasibility of the business plan cannot be reasonably explained
- Cases in which the applicant is unable to provide a reasonable explanation of the appropriateness of the business plan with regard to AML/CFT measures, and the risk assessment report does not show any evidence of comprehensive and specific verification of risks such as the products and services provided by the company, the type of transactions, the countries/regions involved in transactions, and the attributes of customers, and also does not indicate specific procedures for confirmation at the time of transaction or methods for detecting, judging, or reporting suspicious transactions.

Regulations and additional requirements for Type II Funds Transfer Service Providers

Type I Funds Transfer Service Providers	Handling of digital salaries	Connection to the Zengin-net
<p>Requirements based on Payment Services Act</p> <ul style="list-style-type: none"> Business implementation plan <ul style="list-style-type: none"> Strict retention regulations, etc. Methods of business provision System risk management AML/CFT measures Limits on foreign exchange transactions Policy for handling foreign exchange transactions in the event of accidents Provision of information to users 	<p>Requirements based on regulations related to the Labor Standards Act</p> <p>【Secure wage payment】</p> <p>(Examples)</p> <ul style="list-style-type: none"> Funds protection: Guaranteed by private insurance, etc. Convertibility: Timely cash redemption Measures against unauthorized withdrawals and compensation, etc. 	<p>Requirements based on business procedures and related regulations</p> <ul style="list-style-type: none"> The applicant is a deposit-taking financial institution or a Funds Transfer Service Provider The amount of net assets is not negative The applicant has in place a framework of business management and operation that enable the appropriate execution of domestic exchange services in accordance with laws and regulations, business rules, and other rules. <p>Requirements based on administrative guidelines</p> <ul style="list-style-type: none"> Use of system networks between financial institutions

Regulations on Type II Funds Transfer Service Providers

<p>Requirements based on Payment Services Act</p> <p>[User protection of users and proper and secure execution of funds transfer services]</p> <p>(Examples)</p> <ul style="list-style-type: none"> Legal and regulatory compliance framework Measures such as confirmation at the time of transactions 	<ul style="list-style-type: none"> Security deposits for providing funds transfer services System risk management Business continuity system Other measures for the user protection, etc.
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Examples of Funds Transfer Service Providers registration support services

01 Understand the status quo	02 Gap analysis	03 Framework development
<p>In addition to confirming the business model and profit plan that the Funds Transfer Service Provider plans to develop, the current regulatory compliance framework and personnel plans in the future through interviews and inspection of materials.</p> <ul style="list-style-type: none"> Confirmation of the funds transfer services Confirmation of the current regulatory compliance framework 	<p>Utilizing the Financial Services Agency's published documents, including government ordinances and guidelines, as well as industry association guidelines, as benchmarks, experts familiar with other companies' cases conduct comparisons and gap analysis.</p> <ul style="list-style-type: none"> Conduct gap analysis with the current situation Identify and confirm the gap issues Make steps to close the gaps 	<p>Regarding identified to-do items, KPMG supports registration applications by supporting the preparation of policy & procedures, providing advice on the establishment of regulatory compliance frameworks, and reviewing license application documents.</p> <ul style="list-style-type: none"> Review documents for license application Support to make policy & procedures Provide advice on building compliance framework

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