

# Update on FinTech Development in Japan

October 2016

## JPX sees great potential in distributed ledgers

On August 30, 2016, Japan Exchange Group (JPX) published a working paper on the results of Proof of Concept (PoC) tests on blockchain/distributed ledger technology (DLT) that is being conducted in collaboration with IBM Japan, Nomura Research Institute (NRI), and Currency Port.

JPX conducted the PoC tests using both Hyperledger protocol with IBM Japan, and consortium/private DLT protocol based on Ethereum with NRI and Currency Port. For both PoC tests, six domestic financial institutions also participated in the tests.

See more detail on page 3.

## BoJ pays attention to biometrics and blockchain

On August 23, 2016, Bank of Japan (BoJ) held its first Forum on FinTech with the theme of information security. Major financial institutions, FinTech ventures, and IT vendors delivered and exchanged insights on security measures using biometrics and blockchain technology in financial markets.

BoJ is dealing with FinTech through themes such as "Forum on Payment and Settlement System" and "Retail Payment Conference" followed by the FinTech Forum led by FinTech Center that was established last April.

## FSA established "WG on Financial System"

The first financial system council meeting "Working Group on the Financial System" (WGFS) was held on July 28, 2016.

The WGFS aims to hold a dialogue with consistency among relevant financial regulatory frameworks, and the emerging businesses to provide payment services on customer's behalf based on the evolving developments in IT.

## Who should pay attention to this regulation?

This report should be of interest to the following parties;



**Banks and bank holding companies who are interested in investing in FinTech ventures**



**FinTech firms subject to regulations, and FinTech firms seeking alliance with banks.**



**FinTech professionals who seek better understanding of the developments in Japan**

## Summary of FinTech in Japan

- JPX published a working paper on blockchain.
- BoJ held a first forum on biometrics and blockchain.
- FSA established Working Group on Financial System to review consistency among financial regulatory frameworks and payment services provider on customer's behalf.
- A virtual currency exchange raised over 1.6B JPY in investment.
- A firm that provides payment services on credit without credit cards raised over 1.5B JPY in investment.

## Recent developments among Japanese authorities

### Financial Services Agency

#### Established "Payments Council on Financial Innovation"

To follow-up and exchange views on the implementation of the action plan in the report issued by "the Working Group on Payments and Transaction Banking of the Financial System Council" on December, 2015 (June, 2016)

#### Established a financial system council "Financial System Working Group"

Refer to page 1.

#### Request to clarify consumption tax for virtual currency

FSA published the Fiscal Year 2017 request for tax revisions which requests to clarify whether purchase of virtual currency is subject to Consumption Tax. FSA would like to clarify if it is regarded as subject to tax exemption, or not.

### Bank of Japan

#### BoJ hosted its first FinTech Forum with the theme of information security

Refer to page 1.

### Government

#### AI and FinTech in Japan Revitalization Strategy

"Japan Revitalization Strategy 2016 – Towards the Fourth Industrial Revolution" on June, 2016 published.

Themes of focus of the strategy included artificial intelligence, development and implementation, strategic response to FinTech developments, and facilitation of cashless payments.

### Innovation: Japanese bank commences PoC testing on blockchain technology overseas

The Bank of Tokyo-Mitsubishi UFJ and Hitachi announced, on August, 2016, that they will conduct Proof of Concept testing on blockchain technology for digitalization of checks in Singapore. BTMU and Hitachi will develop a system in which blockchain infrastructure will be used for issuing, transferring and collecting electronic checks. The bank will issue and settle the checks, and certain Hitachi Group companies will receive the electronic checks and deposit the funds. They both will identify issues from various perspectives such as technology, security, operations and legality.

## Japanese FinTech Startups with series of large funding

### A virtual currency exchange raised over 16M USD

QUOINE JAPAN, which operates virtual currency exchanges in a number of countries including Singapore, raised over a total of 16M USD via third party allotments, with JAFCO being the lead investor. QUOINE transferred its head office to Japan to expand its business, and plans to provide virtual currency trading engines to financial institutions, and ordinary and FX firms.

### Credit card-less credit service raised 15M USD

Exchange Corporation K.K., which provides credit card-less credit service "Paidy," raised a total of 15M USD via series B round third party allotment, with lead investors such as SBI Investment, Eight Roads, and Ventures Japan.

## FinTech Startups Company Profile

### QUOINE JAPAN

#### Company Overview

QUOINE JAPAN is a virtual currency exchange, which was incorporated in 2014. Virtual currencies it supports are Bitcoin and Ethereum (ETH), and it also provides margin trading, future, and asset lending (not in ETH). Given the amendment in law introducing new regulation on virtual currencies, it began focusing on providing B2B trading engines, to firms like securities companies and FX firms that are expected to enter the market.

**Head Office:** Tokyo, Japan

**Key Persons:** Mike Kayamori (CEO) & Mario Gomez Lozada (CTO)

**Website:** <https://www.quoise.com/>

**Year Founded:** 2014

**Ownership:** Private

### Exchange Corporation

#### Company Overview

Exchange Corporation (ExCo) provides payment service on credit without physical cards to over 600,000 firms/stores in Japan. Users can shop online by using an email address and a mobile phone number, and make a single payment for the previous month. By using its own module and machine learning, the screening can be completed within seconds, and payments to the member branches are guaranteed by ExCo.

**Head Office:** Tokyo, Japan

**Key Person:** Russell Cumber (CEO)

**Website:** <https://paidy.com/en>

**Size:** Over 2B JPY

**Year Founded:** 2008

**Ownership:** Private

## Major Trends for Japanese Financial Institutions

### The Bank of Tokyo Mitsubishi UFJ invested in Coinbase

On July, 2016, a US-based virtual currency exchange “Coinbase” announced its strategic partnership with the Bank of Tokyo Mitsubishi UFJ Bank (BTMU). BTMU, Mitsubishi UFJ Capital, and a capital Sozo Ventures invested a total of 10.5M USD (Reuters).

Coinbase was founded in 2012, currently operating virtual currency exchanges, for currencies such as Bitcoin, in more than 30 countries, however, it has not yet entered the Japanese market. Coinbase, with the new partnership with BTMU, plans to develop in the Japanese market, which is a significant market in Asia and globally.

### JPX published a working paper on distributed ledger technology

Continued from page 1.

The PoC testing aimed to assess technological limitations and potential. The test found that there is a business requirement of time-trigger events such as a periodic interest rate payment or maturity of a derivative contract. Each node should invoke a transaction at the specified time, but the lack of clock synchronization among the nodes might prevent invoking the transactions at the same time.

Based on a high traffic test implemented by injecting large amount of transactions, when the test produced a maximum of up to a hundred transactions per second.

Although still in development, applying DLT in capital market infrastructure has great potential to contribute to generating new business, enhancing business operations, reducing cost, and even rebuilding the financial business models that exist today.

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If you would like to arrange a discussion, please contact one of our FinTech contacts on the left, or your regular KPMG contact.

<https://home.kpmg.com/xx/en/home/insights/2016/02/kpmg-global-fintech-fs.html>



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