

PLC Global Finance update for May 2010: Japan

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Financial institutions

Developing a safety net for "net money"

People in Japan have been using digital money on the internet (net money). The total virtual server -type net money issued will reach an estimated JPY700 billion in 2010, 1.5 times the amount (JPY440 billion) issued in 2009.

Net money is controlled by the operator of a computer server (net money dealer) and a user will buy net money at an actual store (such as a convenience store) and then use it by inputting an ID number onto the relevant website (for example, mail order services, music and video distribution services and online games).

Net money can be used by anyone and does not require disclosure of bank account, credit card or any other details regarding the user's identity. Consequently, there is potential for criminals to use net money for laundering profits from illegal activities. In addition, net money dealers are not regulated by the law in Japan, which creates many issues when they become insolvent.

The Financial Service Agency (FSA) plans to establish regulations for net money to protect users and to prevent money laundering.

Under the FSA's plans, a net money dealer controlling more than JPY10 million of unused net money issued by it should report to the FSA, and deposit or put into trust half of the amount issued with a deposit office or trust bank.

In addition, a net money dealer that issues net money that can be used for services provided by other net money dealers, as well for its own services, will have to:

Be registered with the FSA.

Maintain at least JPY100 million in net assets.

Establish appropriate audit procedures.

It is intended that the new regulations will, when formalised, be enforceable by the end of September 2010.

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