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glg Global Legal Group

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1 The Fintech Landscape

1.1 Please describe the types of fintech businesses that are active in your jurisdiction and the state of the development of the market, including in response to the COVID-19 pandemic and ESG (Environmental, Social and Governance) objectives. Are there any notable fintech innovation trends of the past year within particular sub-sectors (e.g. payments, asset management, peer-to-peer lending or investment, insurance and blockchain applications)?

The fintech movement in Japan first started in the payment sector – in particular, the enactment of the Payment Services Act in 2010 made it possible for non-banks to provide payment services. Currently, there are various types of payment services available in Japan (both prepaid and postpaid). As a recent trend, several companies have launched Buy Now, Pay Later (BNPL) services as one of their postpaid payment options for consumers. In September 2021, PayPal purchased Paidy, Inc., a BNPL service provider, for JPY 30 billion, which was reported as the largest takeover of a Japanese startup at that moment. Methods for payment have also diversified. Smartphones have become a popular instrument for contactless payments via the use of NFC or QR codes. PayPay is the most popular QR code payment service.

Personal financial management (PFM) services also attracted public attention at the early stage of the fintech movement in Japan. This type of service allows users to collect their digital financial data from several banks, credit cards and investment accounts, and aggregate such data so that they may analyse their personal financial situation. Money Forward, Inc. is a popular service provider which started as such an account aggregation service and went public in 2017. This type of service became the driving force for the 2017 amendments to the Banking Act, with which service providers were required to be registered with the Japanese Financial Services Agency (JFSA) in order to have an API connection with banks.

Several types of crowdfunding services are available in Japan, including donation-based crowdfunding, purchase-based (reward-based) crowdfunding and investment-based crowdfunding. Investment-based crowdfunding services became widely available due to the 2014 amendment of the Financial Instruments and Exchange Act. Under the Act, when a service provider intends to operate an investment-based crowdfunding platform, it is required to be registered as a Type II Financial Instruments Business engaging in electronic public offering services.

Peer-to-peer lending services in Japan are structured by the combination of debt and equity. Lenders provide equity

investments (*Tokumei Kumiai Shusshi*) in a service provider, while such provider makes loans to borrowers. After 2017, many peer-to-peer service providers were subject to administrative orders in relation to serious false disclosures/fraudulent conduct. Some regulatory enhancement/improvement for peer-to-peer lending services will be put in place in the near future.

The 2016 amendment of the Payment Services Act introduced the regulation for crypto-asset exchange business providers. The Japanese regulator had previously taken a strict approach against crypto-related business. In 2022, although Web3 became a buzzword and positive views regarding crypto spread, with the failure of FTX, the general public still perceive crypto with uncertainty.

In June 2023, the amended Payment Services Act came into effect, which clarifies the regulatory position of “Electronic Payment Instruments”, i.e., so-called “stable coins”, and introduces a registration system for the intermediary acts of buying, selling, exchanging, managing and mediating such Electronic Payment Instruments as a business.

The report published in January 2025 by the Financial Services Advisory Council’s Working Group on Funds Settlement Systems proposes the establishment of a new type of crypto-asset intermediary licence. This licence would be specifically for businesses that solely mediate the buying and selling of crypto assets without holding the users’ funds. It is anticipated that the requirements to obtain this licence will be less stringent than those for crypto-asset exchange business providers.

1.2 Are there any types of fintech business that are at present prohibited or restricted in your jurisdiction (for example cryptocurrency-based businesses)?

No, there are not.

2 Funding For Fintech

2.1 Broadly, what types of funding are available for new and growing businesses in your jurisdiction (covering both equity and debt)?

There are various types of funding schemes available for startups in Japan. The following are examples of financing methods for new and growing businesses:

1. Equity
Investments by ordinary shares are the simplest way to acquire equity investments. For startup investments, preferred share structure is also commonly used, which is the combination of several rights for shareholders such

as with/without voting rights, preference in dividends and residual assets.

Recently, the “J-KISS” type of convertible equity has gained popularity as a quick method for financing without the need for valuation at the issuance of equity. Convertible bonds with share acquisitions rights can be used by venture capital funds for investment in startups that prefer to avoid dilution.

2. Debt

Generally, banks provide corporate loans to startups and receive a guarantee from the Credit Guarantee Corporations (CGCs) in return. CGCs are public institutions that support small and medium enterprises (SMEs) by serving as public guarantors to make it easier for them to borrow funds. In this regard, CGCs provide guarantees for startups to borrow money (up to JPY 35 million) from banks without any mortgages and guarantees.

Japan Finance Corporation, a public corporation wholly owned by the Japanese government, lends money (up to JPY 72 million, expanded from April 1, 2024) to startups without any mortgages or guarantees.

2.2 Are there any special incentive schemes for investment in tech/fintech businesses, or in small/medium-sized businesses more generally, in your jurisdiction, e.g. tax incentive schemes for enterprise investment or venture capital investment?

The angel tax credit programme is available for venture investment. This programme is applicable to individual investors making investments in certain startups. Investors may receive tax credit for a certain amount. In addition, investors may deduct capital loss incurred through such venture investments from their capital gains for three years in total.

2.3 In brief, what conditions need to be satisfied for a business to IPO in your jurisdiction?

The Tokyo Stock Exchange (TSE) is composed of three segments, i.e., “Prime Market”, “Standard Market” and “Growth Market”.

1. The Prime Market is for companies “which have appropriate levels of market capitalisation (liquidity) to be investment instruments for many institutional investors, keep a higher quality of corporate governance, and commit to sustainable growth and improvement of medium- to long-term corporate value, putting constructive dialogue with investors at the center”.
2. The Standard Market is for companies “which have appropriate levels of market capitalisation (liquidity) to be investment instruments in the open market, keep the basic level of corporate governance expected of listed companies, and commit to sustainable growth and improvement of medium- to long-term corporate value”.
3. The Growth Market is for companies “which have a certain level of market value by disclosing business plans for realising high growth potential and their progress towards these appropriately and in a timely manner, but at the same time pose a relatively high investment risk from the perspective of business track record”.

Listing requirements for the Growth Market are as follows:

1. Business Plan
 - a. A reasonable business plan is in place.
 - b. The principle underwriter submits its basis for its opinion on the company’s high growth potential.

- c. Appropriate disclosure on business plans and matters related to high growth potential (business model, market size, source of its competitive advantages, and business risk).

2. Liquidity
 - a. At least 150 shareholders.
 - b. At least 1,000 units of tradable shares.
 - c. At least JPY 0.5 billion market capital of tradable shares.
3. Governance
 - a. A tradable share ratio of at least 25%.

2.4 Have there been any notable exits (sale of business or IPO) by the founders of fintech businesses in your jurisdiction?

The recent notable exits of founders of fintech companies in Japan are listed below:

1. In 2023, Mitsubishi UFJ Bank invested in the fintech startup Kanmu Co., Ltd., making it a consolidated subsidiary. The valuation was reported to be approximately JPY 25 billion.
2. On December 22, 2021, Finatext Holdings Inc., an enterprise system provider for insurance companies and security brokerages, listed on the TSE Mothers market (currently the Growth Market).
3. On December 15, 2021, Net Protections Holdings Inc., a BNPL service provider, listed on the first section of the TSE (Prime Market).
4. On September 7, 2021, it was announced that Paidy Inc., a BNPL service provider, would be acquired by PayPal Holdings, Inc. for JPY 30 billion.
5. On July 13, 2021, it was announced that pring Inc., a payment service provider, would be acquired by Google.

3 Fintech Regulation

3.1 Please briefly describe the regulatory framework(s) for fintech businesses operating in your jurisdiction, and the type of fintech activities that are regulated.

As fintech can involve a wide variety of businesses, the financial regulations that may apply depends on the specific details of each business. Depending on the services provided by the business, registration or notification may be required under financial regulations. The main financial regulations are listed below.

A business operator who intends to start a remittance business must pay attention to regulations under the Payment Services Act. Business operators other than banks must be registered or licensed as a funds transfer service provider under the Payment Services Act in order to carry out exchange transactions. Under the revised Payment Services Act, which came into effect in May 2021, the funds transfer service is divided into three categories: Type 1 Funds Transfer Service; Type 2 Funds Transfer Service; and Type 3 Funds Transfer Service.

Type 1 funds transfer service providers can handle high-value remittances of JPY 1 million or more, but they must obtain a stricter licence than registration in order to start this business. In addition, the Payment Services Act prohibits Type 1 funds transfer service providers from accepting funds without specific remittance instructions regarding the amount and date of remittance, and from accepting funds

beyond the period required for the funds transfer. However, the FSA is currently considering relaxing the degree of specificity of acceptable remittance instructions and extending the retention period of funds in order to improve user convenience. Type 2 fund transfer service providers can handle remittances of JPY 1 million or less, but must obtain registration. The Payment Services Act stipulates that Type 2 fund transfer service providers are obligated to deposit in trust an amount equivalent to the accumulated funds, and to pay out funds unrelated to remittance when the deposited funds exceed JPY 1 million. Type 3 fund transfer service providers can handle remittances of JPY 50,000 or less, but must obtain registration. Type 3 fund transfer service providers are permitted to manage funds entrusted by users in deposits and savings separately from their own funds, unlike Type 2 fund transfer service providers, however Type 3 fund transfer service providers are obligated to undergo an external audit by a certified public accountant or an auditing firm if they choose to manage their funds through deposits and savings.

A business operator who intends to start a business related to prepaid electronic money/points is required to register or make a notification under the Payment Services Act if the business intends to issue “prepaid payment instruments”. There are two types of prepaid payment instruments: “prepaid payment instruments for one’s own business”; and “prepaid payment instruments for a third-party business”. “Prepaid payment instruments for one’s own business” are those that can be used only when purchasing goods or services from the issuer itself. Issuers of “prepaid payment instruments for one’s own business” must notify the Local Finance Bureau if the total unused balance exceeds JPY 10 million as of March 31 or September 30 in any given year (either of these two dates, the so-called “Base Date”). The notification must be made within two months from the Base Date. On the other hand, “prepaid payment instruments for a third-party business” are prepaid payment instruments other than “prepaid payment instruments for one’s own business”, and the issuer is required to register in advance with the Local Finance Bureau.

BNPL refers to a service that allows consumers to pay for the goods they purchase at a future date. In Japan, there is no direct regulation of BNPL; however, businesses utilising BNPL financing may be subject to the Installment Sales Act, which regulates businesses operating instalment payment services. Specifically, the Installment Sales Act stipulates that businesses that operate instalment payment services for a period over two months must be registered as businesses involved in “Intermediation of Comprehensive Credit Purchases” or “Intermediation of Individual Credit Purchases”.

Businesses that want to provide a crowdfunding platform for soliciting investments on the internet need to pay attention to financial regulations. There are three types of crowdfunding: donations; purchases; and investments. Of these, businesses that engage in donation-type or purchase-type crowdfunding do not need to report under the Financial Instruments and Exchange Act. On the other hand, businesses that operate investment-type crowdfunding are required to register or make a notification under the Financial Instruments and Exchange Act, depending on the method of investment from investors.

There are various types of investment-related robo-advisors, and whether registration under the Financial Instruments and Exchange Act is required depends on the specific content of the services provided. For example, a business operator that provides investment advice to investment management companies must be registered as an investment advisory/agency business because it advises on what investment decisions to make

based on the analysis of the value of securities or the value of financial products. On the other hand, a business operator that provides asset management services to general investors must be registered as an investment management business in order to place orders for transactions with securities companies. Furthermore, when providing a fully automated service to general investors, the business operator is also required to register as a Type I Financial Instruments Business.

There are various types of insurtech, and whether a licence or registration under the Insurance Business Act is required depends on the specific content of the services provided. Specifically, if the business to be conducted falls under the category of an “insurance business”, the business operator must obtain a licence or registration under the Insurance Business Act. Under the Insurance Business Law, the term “insurance business” refers to insurance which, among other things, (a) was offered in consideration of payment of insurance premiums, and (b) promised to make compensation for damages that might occur due to certain accidents. Furthermore, a business operator of a business involved in “insurance solicitation” must also be registered. The Insurance Business Law defines “insurance solicitation” as “acting as an agent or intermediary for the conclusion of insurance contracts”.

3.2 Are financial regulators and policy-makers in your jurisdiction receptive to fintech innovation and technology-driven new entrants to regulated financial services markets, and if so how is this manifested? Are there any regulatory ‘sandbox’ options for fintechs in your jurisdiction?

The JFSA has adopted a positive attitude toward fintech trends. In fact, the JFSA has established the Fintech Support Desk tasked with providing a streamlined process for fintech businesses.

Furthermore, in 2018, the Japanese government created a regulatory sandbox system to encourage business activities using new technologies and business models. This system enables rapid demonstration by creating an environment in which new technologies can be demonstrated without being subject to the application of existing regulations.

3.3 What, if any, regulatory hurdles must fintech businesses (or financial services businesses offering fintech products and services) which are established outside your jurisdiction overcome in order to access new customers in your jurisdiction?

Foreign fintech companies, if based in Japan, are subject to the same licensing or registration requirements that apply to Japanese companies. And even if they are only based overseas, foreign fintech companies that serve Japanese customers are likely to be considered to have activities in Japan.

3.4 How is your regulator approaching the challenge of regulating the traditional financial sector alongside the regulation of big tech players entering the fintech space?

The JFSA supports fintech-enabled innovation through initiatives such as the Fintech Support Desk, the Fintech PoC Hub and the Regulatory Sandbox.

At the same time, as the unbundling of financial functions continues, the JFSA is currently revising the Payment Services

Act and other laws in order to strike a balance between regulation of the traditional financial sector and regulation of big tech player entering the market, based on the belief that the same functions and risks should be subject to the same regulations.

4 Other Regulatory Regimes / Non-Financial Regulation

4.1 Does your jurisdiction regulate the collection/use/transmission of personal data, and if yes, what is the legal basis for such regulation and how does this apply to fintech businesses operating in your jurisdiction?

Yes; in Japan, the Act on the Protection of Personal Information regulates the collection/use/transmission of personal data. All businesses that handle one or more types of personal information are subject to the Act on the Protection of Personal Information. Consequently, fintech businesses that handle personal information are subject to this law.

4.2 Do your data privacy laws apply to organisations established outside of your jurisdiction? Do your data privacy laws restrict international transfers of data?

The Act on the Protection of Personal Information applies to business operators in a foreign country that acquire personal information while providing products or services to persons in Japan. However, business operators located in a foreign country who are subject to the Act on the Protection of Personal Information are exempted from the application of some of its provisions, including, for example, the obligation to confirm and record when receiving personal data from a third party.

Before a company may provide personal data to a third party in a foreign country, it must, as a general rule, obtain the consent of the person to the effect that the provision to the third party in a foreign country is permitted. However, in certain cases, such as when the third party to whom the information is to be provided is located in a country that has received an adequacy decision from Japan, or when the third party has established a certain system, said consent is not necessary.

4.3 Please briefly describe the sanctions that apply for failing to comply with your data privacy laws.

If a business operator handling personal information violates the Personal Information Protection Law, the Personal Information Protection Commission can collect reports, conduct on-site inspections, give guidance and advice, and issue recommendations and orders to the business operator.

Business operators will be subject to criminal penalties if they do not respond to the Commission's request for report collection or on-site inspection, make a false report in response to the request for report collection, or violate the Commission's orders.

4.4 Does your jurisdiction have cyber security laws or regulations that may apply to fintech businesses operating in your jurisdiction?

In November 2014, the government enacted the Basic Act on Cybersecurity, a law that provides a basic framework for cybersecurity. Under this law, the Japanese government must take

steps to implement cybersecurity policies, including legislative, fiscal and tax measures.

The Ministry of Internal Affairs and Communications publishes laws related to cybersecurity on its website; for example, it has published the Act on Prohibition of Unauthorized Computer Access and the Act on Regulation of Transmission of Specified Electronic Mail.

4.5 Please describe any AML and other financial crime requirements that may apply to fintech businesses in your jurisdiction.

"Specified business operators" under the Act on Prevention of Transfer of Criminal Proceeds (e.g. insurance companies, financial instruments business operators, fund transfer service providers, and crypto-asset exchange service providers) must comply, among other things, with the requirements to (1) verify at the time of transaction, (2) create and record transactions, (3) report suspicious transactions, and (4) establish a system to comply with these obligations.

In addition, "specified business operators" must also comply with AML/CFT measures described in the "Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism" formulated by the JFSA.

4.6 Are there any other regulatory regimes that may apply to fintech businesses operating in your jurisdiction (for example, AI)?

There are no other pieces of legislation in Japan that apply specifically to the fintech sector.

5 Technology

5.1 Please briefly describe how innovations and inventions are protected in your jurisdiction.

In Japan, the laws dealing with intellectual property (IP) protect innovations and inventions. For example, under the Patent Act, inventions are protected for 20 years from the date of filing. The Copyright Act protects literary, academic, artistic, musical and computer program creations without filing, and the term of protection begins at the time of creation and lasts for 70 years after the creator's death. The Unfair Competition Prevention Act protects trade secrets, such as know-how and customer lists, and regulates acts of unfair competition (such as theft).

In addition, business entities can protect their own confidential information related to innovations and inventions by agreeing with their business partners on the handling of information in non-disclosure agreements, joint development agreements, and development consignment agreements.

5.2 Please briefly describe how ownership of IP operates in your jurisdiction.

As a general rule, the right to obtain a patent is vested in the inventor, i.e., an individual such as an employee. However, the right to obtain a patent for an employee invention can be attributed to a company from the beginning by stipulating in an employment agreement or employment regulations that the employer has the right to obtain a patent. However, the employee who is the inventor can seek to receive from the company a reasonable profit on the employee's invention as remuneration.

On the other hand, copyrights and moral rights, as a general rule, belong to the individual who created the work. Exceptionally, however, copyrights will belong to the employer if (a) the work is created based on the employer's initiative, (b) the work is created by the employees in the course of their duties, (c) the work is published under the name of the employer (this requirement does not need to be met for the copyright of a computer program), and (d) neither an employment agreement nor employment regulations provide otherwise. Regardless of the exceptions, the usual practice is to stipulate in an employment agreement or employment regulations that the copyright is transferred from the employee to the employer. In addition, moral rights, i.e., the right to make a work public, the right to attribution, and the right to integrity, are separate from copyrights and cannot be transferred. Therefore, it is usual for companies to agree with employees that the employees will not exercise their moral rights.

5.3 In order to protect or enforce IP rights in your jurisdiction, do you need to own local/national rights or are you able to enforce other rights (for example, do any treaties or multi-jurisdictional rights apply)?

Basically, the territoriality principle applies in Japan. Therefore, in order to exercise patent or trademark rights in Japan, it is necessary to file an application and obtain patent or trademark rights in Japan. Under the Paris Convention for the Protection of Industrial Property, those who filed an application for a patent in a member country can claim a right of priority for the patent in Japan if they file an application in Japan within 12 months. As a result, the filing date in the member country can be deemed as the filing date in Japan. Under the Patent Cooperation Treaty, filing an international application in a member country has the same effect as filing an application in any other member country, including Japan. Thereafter, if the company completes the domestic application procedure in Japan within 30 months and the Japanese Patent Office grant a patent, they can exercise rights in Japan based on the patent.

On the other hand, with regard to copyrights, based on treaties such as the Berne Convention, the Universal Copyright Convention, and the WIPO Copyright Treaty, even works from foreign member countries are protected in Japan under the Copyright Act.

5.4 How do you exploit/monetise IP in your jurisdiction and are there any particular rules or restrictions regarding such exploitation/monetisation?

IP can be exploited or monetised in Japan by means of assignment, licensing or grant of security.

- **Assignment:** The transfer of patent rights does not take effect unless the transfer is registered. On the other hand, it is not necessary for the transfer of copyrights to be in writing. However, in practice, the copyright transfer agreement is always made in writing as it is necessary to specifically list the transfer of rights as stipulated in Articles 27 and 28 of the Copyright Act. Also, a copyright transfer cannot be asserted against a third party without registration, so important copyright transfers are likely to be registered.
- **Licences:** In principle, there is no legal requirement that licensing of IP rights be made in writing. However, licensing is usually done by entering into a licensing agreement. In addition, when granting an "exclusive licence" to a patent (i.e., a right that allows only the licensee to use the patented invention), the licensee is required to sign a licensing agreement, and the licence must be registered at the Japanese Patent Office.
- **Security interests:** A grant of a security interest in patent rights does not take effect unless it is registered. Regarding copyrights, in practice, the creation of a security interest is made in writing. In addition, registration is required for the perfection of the security interest.



Koji Kanazawa has advised various financial institutions/fintech startups in all aspects of their operations, with a focus on financial regulatory matters. He has experience working at the JFSA, and has worked on compliance/risk management issues of financial institutions/fintech startups, including AML/CFT, countermeasures against anti-social forces, and personal data protection. He has represented both Japanese and overseas clients, including banks, insurance companies, asset management companies, investment funds, credit card companies, leasing companies and non-bank finance companies. Such representation extends to complex financial regulatory matters (including issues relating to the Banking Act, the Insurance Business Act, the Financial Instruments and Exchange Act, the Money Lending Control Act, the Investment Act and the Asset Securitization Act), structured finance and litigations arising from the sales of financial instruments.

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Katsuya Hongyo represents Japanese and overseas clients, including banks, insurance companies, asset management companies, and fintech startups. His practice focuses on financial regulation, such as the Banking Act, the Financial Instruments and Exchange Act, the Payment Services Act, the Money Lending Act, finance, M&As, compliance/risk management, and litigation, drawing in large part on his experience working as a visiting attorney at Kirkland & Ellis LLP in Chicago and as a seconded attorney at the JFSA.

During his secondment, he revised financial regulations to enable banks to invest in trading companies that expand local SMEs' sales channels and clarify requirements for banks to deal with crypto assets or operate information banking businesses. He also partly drafted the Act on Special Provisions of the Antimonopoly Act, making it easier for banks to integrate their business. He also responded to inquiries from banks for an interpretation of banking regulations. He worked in Chicago performing compliance due diligence for U.S. asset management companies investing in Japan and assisting with discovery in patent litigation involving Japanese companies in the U.S. Since 2022, when he was promoted to partner at Chuo Sogo Law Office, he has assisted foreign financial businesses in obtaining financial licences to enter the Japanese market. He has also been responsible for assisting the head of internal audit of a major Japanese private equity fund management company and provided due diligence and advice to improve the compliance system of a Japanese regional bank. In addition, he has carried out due diligence and drafted M&A agreements for acquisitions of Japanese web3 operators by foreign companies. Furthermore, in providing legal support to startups, he provides them with advice on financial regulations and sometimes lobbies the Japanese government for deregulation to enable our clients to carry out their new businesses.

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Shun Komiya represents domestic and foreign clients, including banks, insurance companies and fintech companies. Based on his experience on secondment to the JFSA, he provides legal advice to banks, insurance companies and fintech companies on new business, financial regulations, financing, M&A, compliance risk management and litigation. He also provides legal advice to non-financial venture companies. While on secondment to the JFSA, he was engaged in AML/CFT-related activities such as responding to the FATF's 4th Mutual Examination with Japan, and contributed to the advancement of AML/CFT in Japan. He was also involved in the deregulation of banks' business scope regulations and investment regulations, which encouraged banks to take on new business challenges. He also handled inquiries from banks regarding the interpretation of the Banking Law and other financial regulations.

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Chuo Sogo Law Office is a full-service law firm comprising upwards of 70 lawyers in offices located in the financial and business centres of Tokyo, Osaka and Kyoto. For over 50 years, the firm has been assisting international and domestic clients in an efficient and cost-effective manner. The firm's lawyers graduated from top Japanese and U.S. law schools. As a member of Globalaw, a leading network of some 100 law firms worldwide, Chuo Sogo serves clients virtually anywhere in the world. The firm's main areas of practice are commercial law, finance, compliance/risk management, M&As, corporate reorganisations, insurance and reinsurance, labour law, transportation, IP, securitisation matters, bankruptcy/business

rehabilitation, real estate, international business, tax, administrative law, organised crime countermeasures, and litigation and dispute resolution.

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- The Fintech Landscape
- Funding For Fintech
- Fintech Regulation
- Other Regulatory Regimes / Non-Financial Regulation
- Technology