Banking Regulation in Japan: Overview

by Takaharu Totsuka, Keisuke Hatano and Risa Annen, *Anderson Mori & Tomotsune*

Country Q&A | Law stated as at 01-Jul-2025 | Japan

This Banking Regulation guide provides a high-level overview of the governance and supervision of banks, including legislation, regulatory bodies, licensing, prudential and resolution requirements and recent trends in the regulation of banks.

Legislation and Regulatory Authorities

Legislation

1. What is the legal and regulatory framework for banking regulation?

Banking Act

The principal source of banking regulation is *Act No. 59 of 1981*, as amended (Banking Act), to which all commercial banks are subject. The Banking Act also regulates holding companies whose subsidiaries include banks. Investment banking activities (as opposed to commercial banking activities) are regulated under *Act No. 25 of 1948*, as amended (*Financial Instruments and Exchange Act*).

Under the Banking Act, commercial banks can only engage in limited securities business. Securities firms (rather than banks) mainly engage in investment banking business in Japan. This Q&A discusses banks regulated by the Banking Act and, unless specifically mentioned, does not cover the regulation of securities firms.

Banking Act Enforcement Order

Under the authority of the Banking Act, the Cabinet promulgated Cabinet Order No. 40 of 1982, as amended (Banking Act Enforcement Order).

Banking Act Enforcement Regulations

The Banking Act and the Banking Act Enforcement Order further authorise the Cabinet Office to make subordinate regulations, including Ministry of Finance Order No. 10 of 1982, as amended (Banking Act Enforcement Regulations).

Regulatory Authorities

2. What are the regulatory and supervisory authorities for banking regulation in your jurisdiction?

Lead Bank Regulators

The principal regulator is the *Financial Services Agency of Japan* (FSA). Its authority to supervise banks in Japan is delegated by the Prime Minister.

The FSA is responsible for ensuring:

- The stability of Japan's financial system.
- Protection of depositors, insurance policyholders and securities investors.
- Orderly financial operations.

This is done through measures including:

- Planning and policy-making concerning the financial system.
- Inspection and supervision of private-sector financial institutions, including banks.

Planning and policy-making activities include establishment of:

- Rules to be observed by financial institutions (through legislation, such as the Banking Act, and amendment or abolishment of finance-related statutes and regulations).
- A stable and dynamic financial system and development of efficient and fair financial markets (for investors to conduct asset management and for corporations to efficiently raise funds and capital).

(Articles 3 and 4, Financial Services Agency Establishment Act.)

The FSA can require a bank to report the status of its business activities and property, and audit its relevant books and records, if it finds it necessary to ensure the sound and appropriate management of the bank's business in light of the status of the bank's business activities and property (Articles 24 and 25, Banking Act). Considering the management of a bank's business, the FSA can order a bank to:

- Improve its management.
- Suspend its business in whole or in part.
- Take other remedial actions necessary for purposes of supervision.

(Article 26, Banking Act.)

The FSA has also published guidelines for the supervision of banks. Different guidelines apply to major banks and small and medium-sized or regional financial institutions. This Q&A generally discusses the Comprehensive Guidelines for Supervision of Major Banks, and so on. (FSA Guidelines).

Other Authorities

Part of the FSA's authority is delegated to the *Securities and Exchange Surveillance Commission* (SESC) in relation to onsite inspection and offsite monitoring of investment banking activities and other securities businesses.

The *Deposit Insurance Corporation* is a quasi-governmental organisation established under the *Deposit Insurance Act*, for the purpose of operating Japan's deposit insurance system. If a bank becomes insolvent, the Deposit Insurance Corporation's main role is to protect the depositors and the entire financial system (see *Question 16*).

Central Bank

The *Bank of Japan* (BOJ) is the central bank. It is a juridical person established under the *Bank of Japan Act*, and it is not a government agent. The BOJ's objectives are to contribute to maintaining the stability of the financial system by:

- Issuing banknotes and carrying out currency and monetary control.
- Ensuring the smooth settlement of funds among banks and other financial institutions.

The supervision of banks is considered to be the role and responsibility of the government. The BOJ is not a government agent and does not have the regulatory power to supervise banks. However, as the lender of last resort, the BOJ can provide liquidity to banks in the case of their insolvency (to achieve its objectives). In its role as the lender of last resort, the BOJ can enter into agreements with banks, under which the BOJ is authorised to audit the banks.

Others

The *Ministry of Health, Labour and Welfare*, and the *Ministry of Agriculture, Forestry and Fisheries*, also have roles in the supervision of certain co-operative financial institutions.

Bank Licences

3. What licence(s) are required to conduct banking services and what activities do they cover?

A licence from the Prime Minister must be obtained to engage in banking business (Article 4(1), Banking Act). An individual (including an officer or employee of a legal entity) who engages in banking business without a licence may be subject to a criminal penalty of up to three years' imprisonment and/or a fine of up to JPY3 million (Article 61, item 1, Banking Act). A legal entity whose officer or employee engages in banking business without a licence may be subject to a fine of up to JPY3 million (Article 64(1), item 4, Banking Act).

The following activities constitute the core business activities that must not be undertaken without a banking licence:

- Acceptance of deposits or instalment savings.
- Loans of funds or discounting of bills. As an exception, this can be carried out by a non-bank registered as a money lender.
- Remittance of funds. As an exception, this can be carried out by a non-bank registered as a fund transfer businesses operator who can remit funds not exceeding JPY1 million.

(Article 10(1), Banking Act.)

A bank can engage in certain additional business activities, such as the guaranteeing of obligations, the sale and purchase of certain debt instruments, securities lending and so on (Articles 10(2) and 11, Banking Act).

A licensed bank cannot engage in any business other than the core and additional business activities (Article 12, Banking Act).

4. What is the application process for bank licences?

Application

Any legal entity seeking a banking licence must apply and submit supporting materials (such as articles of incorporation and a certificate of registered matters of the company) to the Prime Minister through the Commissioner of the FSA (Article 1-8, Banking Act Enforcement Regulations). An applicant can request a preliminary review before submitting an application (Article 2, Banking Act Enforcement Regulations). An applicant must pay JPY150,000 as registration fee and the licence tax for each application.

The Japan *e-government website* provides information on the documents necessary for an application (available only in Japanese).

Requirements

The Banking Act provides the licensing criteria. The Prime Minister also has discretion to grant licences and to impose any conditions they consider necessary and appropriate on any licence (Article 4(4), Banking Act).

A bank must be a stock corporation incorporated under the *Companies Act of Japan* (Article 4-2, Banking Act). If the majority of voting rights of the stock corporation are owned by a foreign bank or its affiliates, the Prime Minister must examine whether reciprocal treatment is given to Japanese banks in the foreign bank's home jurisdiction (Article 4(3), Banking Act; Article 4, Banking Act Enforcement Regulations).

There is no limit on the number of bank licences that can be issued under the Banking Act.

Foreign Applicants

A foreign bank can obtain a licence from the Prime Minister by establishing a branch office in Japan (Article 47(1), Banking Act). The Prime Minister must examine whether reciprocal treatment is given to Japanese banks in the foreign bank's home jurisdiction (Article 47(2), Banking Act; Article 9, Banking Act Enforcement Order).

Timing and Basis of Decision

To obtain a licence, the applicant must prove both of the following:

- The applicant has the financial basis to conduct banking business soundly and efficiently, and has good prospects for income and expenditure pertaining to the business.
- After consideration of such matters as its personnel structure, that the applicant has the knowledge and experience to be able to conduct banking business appropriately, fairly and efficiently, and has sufficient business credibility.

(Article 4(2), Banking Act.)

The Prime Minister has broad discretion to grant licences and to impose conditions on any licence (Article 4(4), Banking Act) (see above, *Requirements*).

The Prime Minister must endeavour to provide a decision on an application within one month after receiving the official application (Article 40, Banking Act Enforcement Regulations). However, in practice, a preliminary consultation and review is conducted before the official application. During the preliminary consultation and review process, the government closely examines the applicant to assess whether they meet the relevant requirements. There is no statutory period for a preliminary consultation and review before formally submitting the application.

Cost and Duration

There is no set duration period for a bank licence. A bank can continue to conduct banking business unless the enforcement authority orders the suspension or revocation of the licence. There is no ongoing or renewal fee for the licence.

5. Can banks headquartered in other jurisdictions operate in your jurisdiction on the basis of their home state banking licence?

'A foreign bank cannot conduct banking business in Japan on the basis of its home state banking licence. However, a foreign bank can obtain a licence from the Prime Minister by establishing a branch office in Japan (Article 47(1), Banking Act) (see *Question 4, Foreign Applicants*). A licensed foreign bank branch is subject to substantially the same regulations as those applying to banks based in Japan.

Organisation of Banks

Legal Entities

6. What legal entities can operate as banks?

All banks organised in Japan must be stock corporations (*kabushiki kaisha*).

7. What requirements apply to the structure of banking groups?

Any legal entity that wishes to become a bank holding company must obtain the prior approval of the FSA. A holding company in this context is, in principle, a company whose value of shareholding in its subsidiaries in Japan exceeds 50% of the value of its total assets. Approval as a bank holding company is granted at the sole discretion of the FSA.

In principle, the criteria required to be met to obtain approval as a bank holding company include the following:

- Ability to generate income and pay for its operating expenditure.
- Capital adequacy.

- Sufficiency of knowledge and experience on the part of relevant personnel to engage in banking business.
- Sufficient business credibility.

Governance

8. What are the governance and organisational requirements for banks?

Under the Banking Act, a bank must have in place the following:

- A board of directors.
- A board of company auditors, a supervisory committee, or a nominating committee, among others.
- An accountant auditor.

In addition, the Banking Act and the Comprehensive Guidelines for Supervision of Major Banks, and so on, require Globally Systemically Important Banks to establish higher corporate governance standards, such as the three committee structure.

9. What is the supervisory regime for key individuals within banks?

Key individuals do not have to be licensed or approved by the FSA.

However, directors engaged in the ordinary operations of banks must be persons with:

- The knowledge and experience to understand and implement the objectives of business management specified in the Banking Act and relevant regulations.
- Sufficient knowledge and experience in compliance and risk management necessary for sound and proper management of banking business.

(Article 7-2(1)(i) of the Banking Act; III-1-2-1(2)(xiii) of the FSA Guidelines.)

10. Do any specific remuneration requirements apply to bank employees?

If a bank issues publicly traded securities, it must disclose publicly the names and remuneration of its officers whose annual remuneration (including remuneration received as an officer of the consolidated subsidiary of the bank) is JPY100 million or more (Financial Instruments and Exchange Act).

There are no express requirements with respect to remuneration under the Banking Act.

However, under the FSA Guidelines, there are general requirements on major banks established in Japan and branches of foreign banks to establish systems which ensure appropriate remuneration of management and employees to avoid excessive risk-taking. All banks (including branches of foreign banks) must also disclose matters concerning remuneration in their business reports, including:

- The organisation which determines or otherwise supervises the determination of remuneration.
- Matters concerning the evaluation of remuneration systems and their operation.
- Consistency of the remuneration systems and risk management, and performance-linked remuneration.
- Other matters concerning remuneration systems.

(FSA Notification *(*Article 21(1), Banking Act and Article 19-2(1)(vi), Banking Act Enforcement Regulations delegate the necessary authority to the FSA Notification.)

There are no special rules for systemically important banks (SIFIs) in this regard.

Prudential Requirements

11. What are the prudential requirements for banks?

Capital Adequacy Requirement

The framework for regulating domestic banks' capital adequacy under the Banking Act has been amended in line with the implementation of Basel III.

For domestic banks with international operations, the following criteria must be satisfied:

- The total capital ratio (calculated by dividing the sum of Common Equity Tier 1 plus other Tier 1 plus Tier 2 by risk-weighted assets) must not be less than 8%.
- Tier 1 capital ratio (calculated by dividing the sum of Common Equity Tier 1 plus other Tier 1 by risk-weighted assets) must not be less than 6%.
- Common Equity Tier 1 ratio (Common Equity Tier 1 divided by risk-weighted assets) must not be less than 4.5%.

Domestic banks without international operations are required to have a core capital ratio of 4% (on both a non-consolidated and consolidated basis), and those banks adopting the internal ratings-based approach (IRB approach), which calculates the amount of risk assets by substituting the default rate estimated according to the banks' internal ratings into a predetermined formula, are required to have a Common Equity Tier 1 ratio of 4.5%.

For foreign bank branches, the above regulatory capital framework does not apply because the capital adequacy of these banks must be reviewed by their principal overseas regulators.

Leverage Ratio

The leverage ratio must be kept at 3% or higher. When a bank's ratio falls below this level, the FSA can require the bank to prepare and implement a capital reform plan. In addition, the leverage ratio must be disclosed on a semi-annual basis. These requirements apply only to domestic banks with international operations.

Liquidity Requirement

Liquidity requirements concerning Liquidity Coverage Ratio and Net Stable Funding Ratio have been introduced in line with the implementation of Basel III. Both Liquidity Coverage Ratio and Net Stable Funding Ratio must be kept at 100% or higher. These requirements apply only to domestic banks with international operations.

Shareholdings/Acquisition of Control

12. What requirements or restrictions apply to the acquisition of shareholdings and of control of banks?

Any individual or legal entity that acquires more than 5% of the voting rights of a bank or a holding company of a bank must file a notification with the FSA within five business days of the acquisition (Article 52-2-11(1), Banking Act). If there is an increase or decrease in voting rights of 1% or more after this notification is filed, a notification of the change must be filed within five business days (Article 52-3(1), Banking Act).

Any individual or legal entity intending to become a principal shareholder of a bank must obtain prior approval from the FSA (Article 52-9(1), Banking Act). A principal shareholder is any shareholder that holds voting rights exceeding 20% of all voting rights in the relevant bank (including voting rights held by group companies and by persons that have agreed to exercise voting rights collectively) (Article 2(9) and Article 3-2, Banking Act).

There is no eligibility requirement to apply for approval to be a principal shareholder of a bank, regardless of the percentage of the voting rights. A non-financial organisation can acquire 100% ownership of a bank by obtaining prior approval from the FSA.

Any legal entity wishing to become a holding company of a bank must obtain prior approval from the FSA (Article 52-17(1), Banking Act). A holding company is, in principle, a company whose value of shareholding in subsidiary companies in Japan exceeds 50% of the value of its total assets. Authorisation is at the sole discretion of the FSA. The requirements for approval generally include a sound prospect of balancing income and expenditures, and appropriate:

- Capital adequacy.
- Knowledge and experience on the part of relevant personnel to engage in banking business.
- Levels of business credibility.

The Banking Act permits a bank to convert other banks or money lenders into its subsidiaries. As is the case with converting other categories of companies into new subsidiaries, in principle, banks and bank holding companies must obtain FSA approval in advance of any transaction that will result in other banks or money lenders becoming their subsidiaries.

13. Are there specific restrictions on foreign shareholdings in banks?

There is no specific restriction on foreign shareholdings in banks. However, foreign investors are subject to the filing requirement described below.

An ordinary foreign investor (including any Japanese company of which 50% or more of the voting shares are owned by non-Japanese entities) that acquires shares of a listed Japanese bank, and as a result holds 1% or more of all outstanding shares of the bank, must file a "direct inward investment report". This must be filed with the *Ministry of Finance* (MOF) through the BOJ within 45 days of the acquisition (Articles 26 and 55-5(1), *Foreign Exchange and Foreign Trade Act*).

Any foreign investor that acquires shares of a non-listed Japanese bank from a non-foreign investor must also file a direct inward investment report with the MOF through the BOJ within 45 days of the acquisition.

If the Japanese bank whose shares are acquired is in one of the "restricted industries", a notice is required before the acquisition (Article 27(1), Foreign Exchange and Foreign Trade Act). The restricted industries include the BOJ and certain co-operative associations (*kyodo-kumiai*). The MOF can order:

- The suspension of an investment in restricted industries for a maximum of five months, to examine whether the investment may cause a significant adverse effect on the Japanese economy or others.
- A change or discontinuation of the investment to avoid the adverse effect (if necessary).

(Article 27(3)-(12), Foreign Exchange and Foreign Trade Act.)

These restrictions apply regardless of whether a foreign investor acquiring shares of a Japanese bank is a foreign banking organisation. However, if a foreign investor qualifies as a foreign financial institution that meets certain requirements of the Foreign Exchange and Foreign Trade Act, such foreign investor may be exempt from these rules.

Liquidation and Resolution

14. What is the legal framework for the liquidation of banks?

The legal framework for the liquidation of banks is provided in the *Deposit Insurance Act*. The Deposit Insurance Act classifies liquidation procedures into three categories:

- Ordinary procedures, which are resolution regimes.
- Procedures for financial crisis management, which are essentially bail-out regimes for the protection of bank deposits.
- Procedures under an orderly resolution regime, based on the "Key Attributes of Effective Resolution Regimes for Financial Institutions" adopted by the FSB, and involving an arrangement the effect of which largely parallels a bail-in scheme.

The Deposit Insurance Corporation performs the main role of protecting depositors and the entire financial system in the process for the liquidation of banks.

15. What is the recovery and resolution regime for banks?

Obligations to Prepare Recovery Plans

SIFIs and other systemically important banks must prepare and submit recovery and resolution plans annually (Banking Act and FSA guidelines) (see *Question 2*).

Powers of the Regulator

In principle, the ordinary procedure should be used unless failure of the relevant bank is systemically important. In the ordinary procedures, only a certain amount of the deposits (usually JPY10 million per depositor) is protected under the deposit insurance system. Ordinary procedures fall into two categories:

- **Payout method.** Deposits are paid off directly to the depositors by the Deposit Insurance Corporation's deposit insurance. The failed bank is subject to bankruptcy procedures, such as civil rehabilitation proceedings or corporate reorganisation proceedings.
- **Purchase and assumption method.** All or part of the operation (business) of a failed bank is transferred to an assuming financial institution. Under this method, a financial administrator is appointed to manage the failed bank until the operation of the failed bank is transferred. The Deposit Insurance Corporation gives financial assistance (including monetary grants) within the scope of payout costs, to ensure the smooth transfer of the business.

The purchase and assumption method is preferred over the payout method, as it is less costly.

Orderly Resolution Regime

The "Orderly Resolution Regime" was introduced by the amendments to the Deposit Insurance Act in March 2014, to implement some of the "Key Attributes of Effective Resolution Regimes for Financial Institutions" adopted by the Financial Stability Board.

Under this regime, the Prime Minister can implement certain measures to prevent serious financial turmoil. It is generally understood that this regime is mainly for the purposes of resolution of systemically important banks.

For financial institutions that are not in deficit, the Prime Minister can:

- Order oversight of the management by the Deposit Insurance Corporation.
- Provide liquidity support to fulfil the obligations of the financial institution.
- Order a capital injection.

For financial institutions that are in deficit, the Prime Minister can:

- Order oversight of the management by the Deposit Insurance Corporation.
- Take over the management of the business and assets of financial institutions under certain circumstances specified in the Deposit Insurance Act.

- Transfer contracts that are necessary to maintain the stability of the financial system to a bridge bank, and provide financial assistance to the bridge bank to enable it to perform the obligations under those contracts.

(Chapter 7-2, Deposit Insurance Act.)

Contractual Bail-in

The Prime Minister can trigger bail-in provisions (that is, write down the principal amount or the conversion of debt into equity) in the subordinated bonds, preferred stocks or subordinated loans issued by financial institutions in deficit (Article 102 and Article 126-2(4), Deposit Insurance Act). Such bail-in does not apply in situations of a mere liquidity crisis (breach of Liquidity Coverage Ratio, and so on).

Temporary Stay on Early Termination Rights

The Prime Minister can, after deliberation by the Financial Crisis Management Council, determine a temporary stay of the early termination of certain derivatives contracts to the extent necessary to avoid disruption of the financial system. If the early termination is suspended by order of the Prime Minister, the relevant event of default should not be considered as having occurred for the purposes of the insolvency laws and close-out netting laws (Article 137-3, Deposit Insurance Act).

Co-Operation with Applicable Foreign Bank Regulatory Bodies

In the release titled "The FSA's Approach to Introduce the TLAC Framework", the FSA announced its general policy that close co-operation between the home and the host authorities is essential in cases where cross-border resolution plans are executed.

According to the release, the preferred strategy for orderly resolution for SIFIs in Japan is an Single Point of Entry (SPE) resolution, in which resolution tools are applied to the ultimate holding company by a single national resolution authority. Under the SPE resolution strategy, SIFIs in Japan (ultimate holding companies) will absorb the losses incurred by foreign subsidiaries that are subject to TLAC requirements or similar requirements stipulated by the relevant foreign authority.

Transfers of Business

Through an orderly resolution process (see above, *Orderly Resolution Regime*), contracts that are necessary to maintain the financial system's stability are transferred to a bridge bank. The bridge bank can obtain financial assistance from the Deposit Insurance Corporation to enable it to perform the obligations under those contracts.

16. Are there any protections available to customers of a bank that has failed?

Japan has a deposit insurance system which protects depositors in the event of a bank failure. The Deposit Insurance Act governs the deposit insurance system. The Deposit Insurance Corporation, which was established under the Deposit Insurance Act, provides a public safety net to protect depositors. Banks with their headquarters in Japan are protected by this system. Annual insurance premium payments are made by insured banks to the Deposit Insurance Corporation.

However, the insurance coverage is subject to certain limits, the most significant being:

- The deposit insurance system mainly covers ordinary deposits and does not cover foreign currency or derivative deposits.
- While deposit accounts for settlement purposes generally receive full coverage, other insured deposit accounts are generally covered up to JPY10 million per person and per bank.

Conduct of Business

17. What conduct of business standards apply to banks' deposit-taking and lending activities?

Acceptance of deposits. Banks must provide information on the major condition of deposit products and other deposit-related information that would help to protect depositors (Article 12-2(1), Banking Act; Article 13-3(1), Banking Act Enforcement Regulations). A bank must develop systems for explaining such information to customers in accordance with III-3-3-2 of the FSA Guidelines.

Bank must also:

- Establish internal rules for explaining important matters to customers based on the customers' knowledge, experience, financial conditions and purpose of the transactions conducted.
- Develop sufficient systems for the operation of the business based on these internal rules, including training for employees.

(Article 12-2(2), Banking Act and Article 13-7, Banking Act Enforcement Regulations.)

Specifically, III-3-3-1 of the FSA Guidelines stipulates the explanatory system to be established for loan agreements, related collateral or guarantee agreements and derivative transactions.

Contributor Profiles

Takaharu Totsuka, Partner

Anderson Mori & Tomotsune

Phone: +81 3 6775 1109
takaharu.totsuka@amt-law.com
https://www.amt-law.com/en/professionals/profile/takaharu-totsuka/

Professional qualifications. Dai-ni Tokyo Bar Association; New York State Bar Association.

Areas of practice. Establishing a business presence in Japan; banking financial regulation; asset management and investment funds; structured finance; project finance/PFI; real estate investment/securitisation; real estate transactions; derivatives; M&A; corporate and commercial law.

Recent transactions.

- Takaharu Totsuka specialises in banking and security regulations and payment and settlement regulations.
- In recent years, he has advised major investment banks, commercial banks and securities firms on various regulatory issues.

Keisuke Hatano, Partner

Anderson Mori & Tomotsune
Phone: +81 3 6775 1250
keisuke.hatano@amt-law.com
https://www.amt-law.com/en/professionals/profile/keisuke-hatano/

Professional qualifications. Dai-ni Tokyo Bar Association.

Areas of practice. Banking; financial regulation; structured finance; project finance; FinTech; real estate transactions, investment, investment trusts (REITs) and finance; general commercial litigation; labour and employment disputes.

Recent transactions.

- Keisuke Hatano specializes in payment and settlement related regulations as well as regulations applying to banks in Japan.
- In recent years, he has been acting for a major trust bank and a largest mobile career in Japan in stablecoin related projects.

- In addition to his professional experience at Anderson Mori & Tomotsune, he worked for the Financial Services Agency where he was mainly engaged in the several amendments to the Banking Act which aim to create a pro-FinTech environment.

Risa Annen, Associate

Anderson Mori & Tomotsune
Phone: +81 3 6775 1812
risa.annen@amt-law.com
https://www.amt-law.com/en/professionals/profile/risa-annen/

Professional qualifications. Dai-ichi Tokyo Bar Association

Areas of practice. Competition/Antitrust, Fintech, Corporate

Recent transactions.

- Risa Annen specialises in merger control and financial regulations.
- In recent years, she has advised banks, general trading companies and private equity firms.

END OF DOCUMENT