

EU – JAPAN EPA

Finance & Financial Services

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This presentation has been prepared with the sole purpose of simplifying the understanding of some parts of the EU-Japan EPA and bears no legal standing.



EU-Japan Centre
for Industrial Cooperation
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EPA 8.59 Definition:

“Any service of a financial nature offered by a financial service supplier of a Party”;

“Financial services include

- all insurance and insurance-related services,
- and all banking and other financial services”

EPA 8.59 (ii) Banking and Other Financial Services:

12 Services listed:

- A. Deposits & repayable funds
- B. Lending of all types**
- C. Financial Leasing
- D. Payment & transmission services, credit/debit cards**
- E. Guarantees & commitments

* Sections in red most relevant for SMEs

EPA 8.59 (ii) Banking and Other Financial Services:

12 Services listed:

F. Trading for clients or for own account*

- Money Market Instruments
- Forex
- Derivatives, including futures & options
- Exchange rate instruments, swaps, forward rate agreements
- Transferable securities
- Other negotiable instruments, financial assets, and bullion

* 8.59 (ii) (F): “trading for own account or for account of customers, whether on an exchange, in an over-the-counter market or otherwise”

EPA 8.59 (ii) Banking and Other Financial Services:

12 Services listed:

- G. Participation in securities. Includes underwriting, placement as agent
- H. Money broking
- I. Mutual Funds: asset management, portfolio management, pension fund management, custodian, depository, and trust services
- J. Settlement and clearing services for financial assets and derivatives.
- K. Financial Information, financial data processing, related software
- L. Advisory, intermediation, and other auxiliary financial services. Credit reference, investment analysis, advice, portfolio research

Does this include SMEs?

- Banking Industry
- Institutional and fiduciary investors
- **Financial Professionals:**
 - ✓ Small Professional Firms
- **Fintechs:**
 - ✓ Technology and innovation aiming to compete with traditional financial methods in delivery of financial services.
 - ✓ Software, modern technologies, automated services
 - ✓ Start-ups, Spin-offs

EPA and Financial Sector SMEs

✓ Fintechs

✓ (start-ups, spin-offs, SMEs)

- Lending (crowdfunding platforms, intermediation, SaaS)
- Payment & transmission
- Financial Information & data processing
- Trading for clients (Robo-Advisory)

✓ Small Professional Firms*

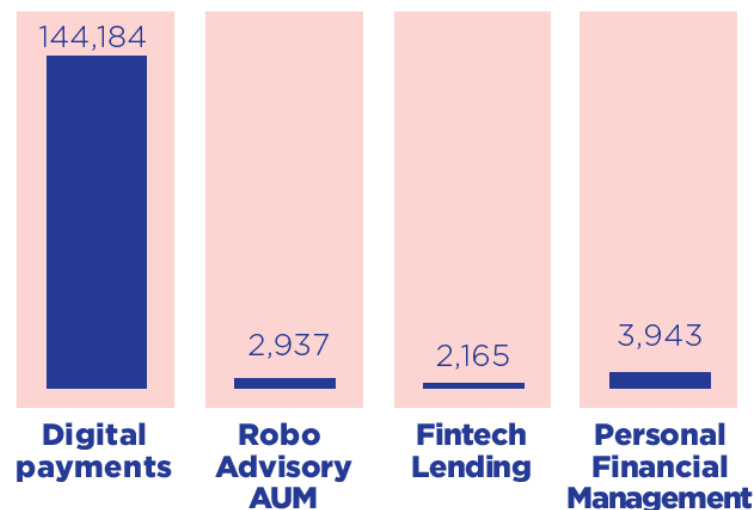
✓ (Possibly licenced professionals)

- Trading for clients (various markets & asset classes)
- Investment Advisory
- Business Angels
- Intermediation Services (loan origination, VC intermediation, etc.)

** Governed by EPA sections on Movement of Professionals. Will be covered in Movement of Professionals webinar in June 2020*

- Payment and transfer services is the largest segment of Japan's fintech industry.
- Worldwide demand for electronic payment and services transfer services also very large
- Works in complement to traditional banking sector.

Japan's Fintech Segment Sizes 2018 (in EUR millions)



Statista data

REGULATORY LANDSCAPE IN JAPAN

- Prior to 2010, only banks and licensed depository institutions were allowed to provide money transfer services.
- The 2010 Payment Services Act, non-financial institutions were allowed to offer money-transfer services up to a maximum of 1 Million JPY. To provide transfer services, firms must be registered as funds transfer service providers and are subject to FSA regulations.
 - Growth and diversification of the digital payments competitive landscape, to include a wider range of small-scale market participants.
- In 2017, the Banking Act was amended to define Electronic Payment Intermediate Services (EPIS) as businesses that either as intermediaries, electronically delivering a depositor's instructions to its bank to transfer funds between accounts.
 - Establishes a legal framework for EPIS providers to collaborate with financial institutions in order to provide services to consumers.

COVERAGE OF PAYMENT AND TRANSFER SERVICES

- ✓ 8.59 a (ii) (A) establishes acceptance of deposits and other repayable funds from the public as “banking and other financial services”
- ✓ 8.59 a (ii) (D) establishes all payment and money transmission services, including credit, charge and debit cards, travelers’ cheques and bankers drafts as “banking and other financial services”
- ✓ 8.59 a (ii) (J) establishes settlement and clearing services for financial assets as “banking and other financial services”
- ✓ 8.59 a (ii) (K) establishes settlement and clearing services for financial assets as “banking and other financial services”

COVERAGE PROVIDES

- ✓ EU-based payment-service and transfer service providers will be able to operate in the Japanese market on equal footing with local providers.
- ✓ EPA 8.8 protects EU SMEs against discrimination by regulators while EPA 8.62 protects against discrimination from self-regulatory organizations.
- ✓ EPA 8.63 protects information transfers and processing of financial information needed the conduct of the ordinary business of a financial service supplier.
- ✓ EPA 8.73 protects software source code against forcible disclosure, but establishes that disclosure may become part of procurements or negotiated contracts. This allows payment-service and transfer-service providers to offer services and enter into joint-ventures, while sharing software code at their discretion.
- ✓ EPA 9.2 protects the free movement of capital and transactions (which can be temporarily interfered with in times of external financial difficulties). Cross-border transactions possibly as instantaneous as domestic, by removing regulatory transaction bottlenecks.

COVERAGE PROVIDES: Intellectual Property

- ✓ EPA 14.32 and 14.33 protect against the unregistered use of intellectual property. Payments systems providers can protect themselves against local product and service cloning.
- ✓ EPA 14.36 establishes definitions and protections for trade secrets, and authorized secret-holders, while 14.50 provides for civil judicial procedures to defend trade secrets.

Crowdfunding & P2P Lending

Types of crowdfunding

Donation crowdfunding: There is no financial return to contributors. Done mainly by non-profits, often in connection to specific causes, events, or disasters.

Rewards-based crowdfunding: Based around “rewards” contributors. Goods or services, which can be customized, or offered as early-access. Product prototypes and customization to finance product development while also promoting market visibility.

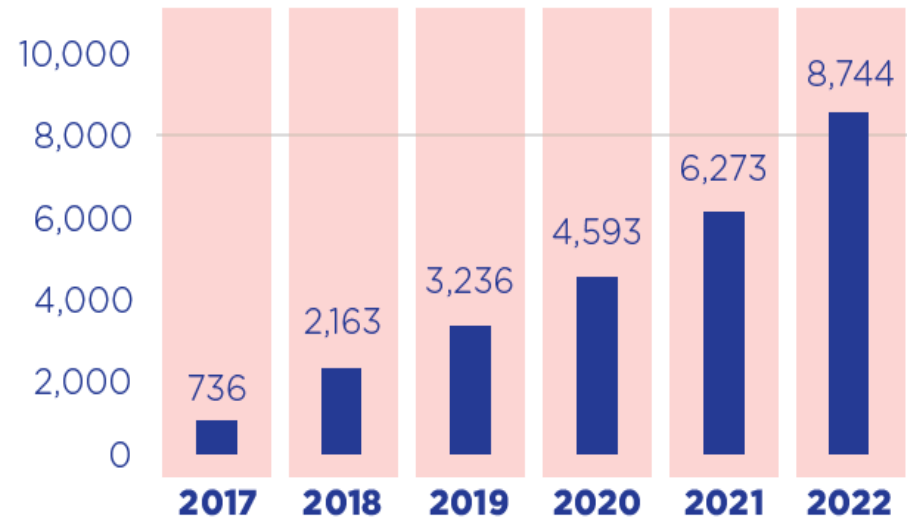
Equity crowdfunding: Crowd-based approach to securities issuance. Gives small entrepreneurs access to the general investing public. Allows contributors to become part-owners of a company by trading for equity shares. Also called investment-based crowdfunding.

Debt crowdfunding: Connects borrowers and lenders directly (although lending can also be structured in bundles or as bonds), offering borrowers direct access to loanable funds and lenders access to credit markets. Also called peer-to-peer lending, fintech lending, or crowdlending.

Crowdfunding & P2P Lending

- While peer-to-peer lending is a much smaller segment of the fintech industry than payment & transfer services, it is growing aggressively.
- Cross-border peer-to-peer lending a major feature of Japan's crowdfunding landscape.

Japan's Fintech Lending (EUR)



Statista data

Crowdfunding & P2P Lending

REGULATORY LANDSCAPE IN JAPAN

- The 2010 Payment Services Act, non-financial institutions were allowed to offer money-transfer services up to a maximum of 1 Million JPY
 - Lowers regulatory barriers for crowdfunding firms, projects and platforms.
- The 2014 Amendment of Financial Instruments and Exchange Act relaxes restrictions on equity offerings by privately-held companies and on involvement of non-accredited investors.
 - Allows equity fundraising, setting the stage for companies to raise investment capital through online crowdfunding platforms.
- In 2017, the Banking Act was amended to define Electronic Payment Intermediate Services (EPIS) as businesses that either as intermediaries, electronically delivering a depositor's instructions to its bank to transfer funds between accounts.
 - Provides an operational framework along which crowdfunding platforms can organize their operations.

Crowdfunding & P2P Lending

COVERAGE OF CROWDFUNDING & P2P LENDING

- ✓ EPA 8.59 a (ii) (B) establishes all lending, including consumer credit, mortgage credit, factoring and financing of commercial transactions as “banking and other financial services”
- ✓ EPA 8.59 a (ii) (F) and (G) establish any involvement with securities trading and issuing & underwriting respectively as “banking and other financial services”
- ✓ EPA 8.59 a (ii) (J) establishes settlement and clearing services for financial assets (including securities and derivatives) as “banking and other financial services”
- ✓ EPA 8.59 (C) designates “new financial services” for financial services existing in Europe, but not yet in Japan.

COVERAGE PROVIDES

- ✓ EU-based crowdfunding operations and firms can now invest in the Japanese market on equal footing with local domestic crowdfunders.
- ✓ EPA 8.8 protects EU SMEs against discrimination by regulators. EPA 8.62 protects against discrimination by self-regulatory organizations.
- ✓ EPA 8.60 establishes the right of financial service providers to offer new financial services in Japan (might still require licenses and regulatory authorization).
- ✓ EPA 8.65 can result in European P2P lending or equity crowdfunding to become subject to Japanese prudential regulation.
- ✓ EPA 9.2 protects the free movement of capital and of transactions (which can be temporarily interfered with during times of external financial difficulties). This makes cross-border P2P lending and crowdfunding mechanically viable.

Blockchain, Cryptocurrency & Tokens

Products on the Crypto Landscape

Cryptocurrency and Payment Tokens: Intended for use as means of payment, these do not give rise to claims on the issuer. As such, these do not give rise to claims on the issuer, and are functionally more similar to currency than to securities.

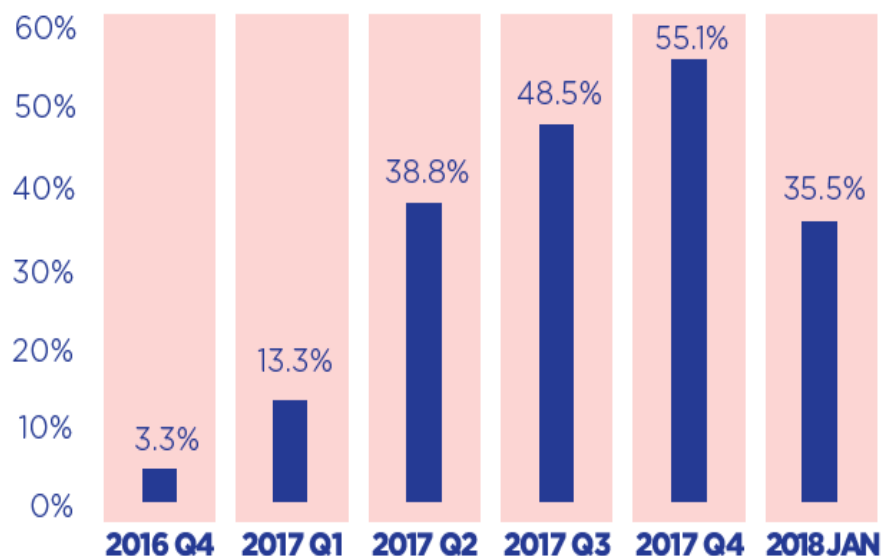
Asset, Security and Investment Tokens: Represent either a debt or equity claim on the issuer. They promise a share in future earnings or capital flow, making them analogous to equities, bond, or derivatives. Tokens which enable physical assets to be traded via blockchain also fall into this category.

Utility Tokens: Intended to provide digital access to applications and specific services by means of blockchain-based in e-infrastructure. Since they are intended for use only on their home-platform, they are not a general medium of exchange.

Blockchain, Cryptocurrency & Tokens

- Japanese market is a major destination for cryptocurrency trades
- Driven by recent reforms in Japan's regulatory landscape.

Yen trades as a share of total



Bloomberg data

Blockchain, Cryptocurrency & Tokens

REGULATORY LANDSCAPE IN JAPAN

- In Japan, cryptocurrencies, tokens and services are governed as Virtual Currencies (VCs) under auspices of:
- 2010 Payment Services Act: Establishes framework for electronic payment mediums.
- 2006 Financial Instruments Exchange Act: Establishes parameters for collective investment.
- 2017 Virtual Currency Act: Establishes framework for regulation and licensing for the cryptocurrency market.

Blockchain, Cryptocurrency & Tokens

COVERAGE OF BLOCKCHAIN, CRYPTOCURRENCY & TOKENS

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Blockchain, Cryptocurrency & Tokens

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Blockchain, Cryptocurrency & Tokens

Players in the Crypto Landscape

Users: use cryptocurrency and tokens as means of investment or transaction. Payments, lending & borrowing, asset & commodity trading, speculation.

Miners: process transactions, validating them by lending computing power to solve cryptographic puzzles in exchange for remuneration in cryptocurrency. Provide functionality.

Wallet Providers: Custodian services for cryptocurrency market. Storing and transferring assets.

Exchanges: Offer purchase, sale, and exchange services, typically on commission. Provide a platform for market players to buy/sell cryptocurrencies, tokens, services, and commodities.

Coin offerors: Place cryptocurrencies and blockchain-based assets into the market at initial release. Coins offered by the offeror are pre-mined prior to the coin's release into the market. Release can occur via crowd-sale or via more organized pre-registration.

Thank you for your attention

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QUESTIONS ?

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