

REVIEWS LEGAL INDUSTRY



Andreas Höppel, Head of Legal at **SEGA Corporation**, discusses the challenges faced by the legal team including issues related to intellectual property, NFTs, AI, gaming regulations, and international communication.

Duc Doba, Founder & CEO of **Tokyo Techies**, addresses the talent shortage in IT engineering in Japan, offering IT consulting services, and developing business software solutions.

LIR

The image features the letters "LIR" in a bold, black, sans-serif font. The letters are positioned to the left of a red square frame. The frame is composed of four thick red lines, with the top and bottom lines extending further to the right than the left and right lines, creating an open, rectangular shape that partially encloses the letters.

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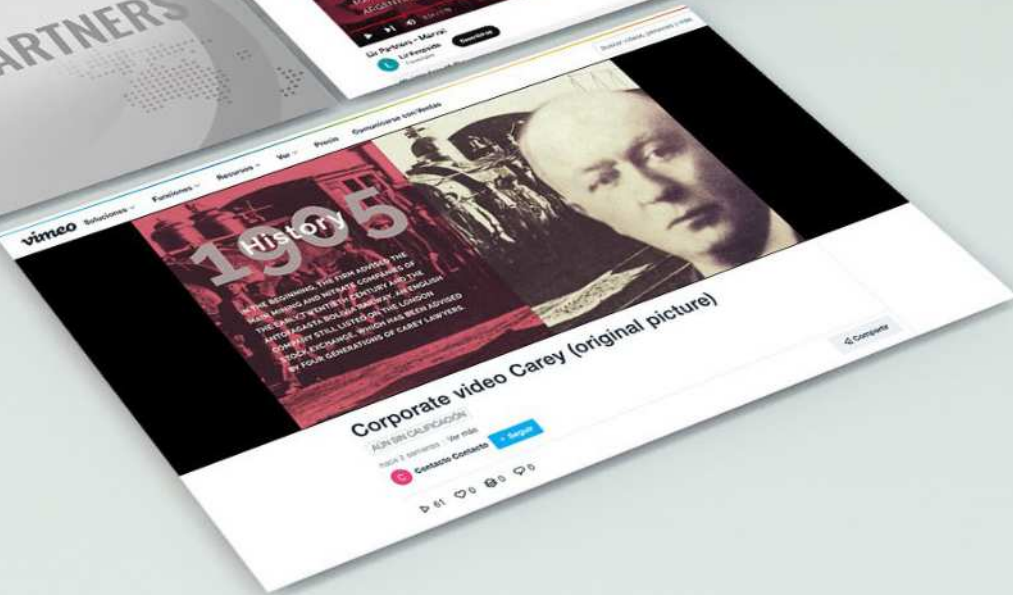
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Andreas Höppel:

“Being recognized as one of the top 100 in house professionals in Japan hopefully attracts the interest of great talent wanting to work for us, so SEGA Legal can continue to be a valuable business partner within the company”.



Andreas Höppel, Head of Legal at **SEGA** Corporation, is a graduate of Heidelberg University, with 1 year of foreign studies at Kyoto University, Japan, and received a scholarship for academic excellence from the state of Baden-Württemberg in Germany. He passed the German bar exam following legal clerkship at Berlin high court, with stages at the German embassy in Japan and a multinational law firm in Tokyo. Andreas started working from 2010 at boutique law firms specializing in insolvency and restructuring in Düsseldorf and Munich. He went in-house to a “hidden champion” SME in the renewables sector in 2013 and was subsequently sent as GC APAC and Rep Director to its newly established subsidiary, Japan. Andreas moved to SEGA Corporation in 2015 and became Head of Legal in 2022.

In this edition, The Legal Industry Reviews: Japan had the pleasure of discussing with Andreas Höppel, Head of Legal at SEGA Corporation. In this interview he analyzes the challenges faced by SEGA's legal team, including evolving issues like NFTs and AI, the gaming-related legislation, and the importance of maintaining intercultural relationships.

What are the biggest challenges for the legal team inside SEGA?

It is hard to pinpoint the biggest challenges, as the world in entertainment is constantly shifting and evolving. One day you worry about intellectual property related issues in connection with NFTs and the other day it is the use of AI

in programming and game design. All that on top of the daily "routine" work, which needs to be done with the same focus and dedication every day. Then there are larger projects which require your attention and coordination with other stakeholders. And let's also not forget that SEGA has overseas subsidiaries as well, so we need to keep communicating with them across the globe not just to provide the best service to our business but also to foster our personal, intercultural relationships within the larger, global SEGA Legal framework.

Could you describe a recent regulation change or legal update that has impacted your work?

In general, I think that compliance related issues are always hot topics. What started with the GDPR in 2018 on privacy related matters, is still evolving with more and more countries coming up with their own frameworks we need to keep in mind and adapt to. But then there is the world of "gaming" (i.e. gambling) in video games, which

started with the loot box controversies a while ago and sees a lot of legislative movement across the globe. Last but not least, there is also a lot of movement surrounding rules and regulations regarding the protection of children. The UK's Age Appropriate Design Code (AADC) comes to mind, and California's equivalent. Since many of our customers are children or teenagers, these regulations certainly have an impact on our work.

Given that SEGA is an entertainment company, do you think that your work has a personal interest for you?

Yes, absolutely. I am a gamer at heart, and it's been a hobby of mine since my childhood. Working for the iconic blue SEGA logo has something surreal about it, and I still need to pinch myself every now and then to make sure I am not in some sort of fantasy, dream world. But all this knowledge about video games actually helps me a lot in my work. I can talk



“It is hard to pinpoint the biggest challenges, as the world in entertainment is constantly shifting and evolving”.

with business people on a more technical level, can quickly relate to certain functions in games, which makes it easier for all sides to communicate and get the job done. Being able to do so, gets me closer to my colleagues on a personal level and helps bridging the (imaginary) gaps between corporate and business/development. Things get done based on skill and knowledge, but personal relationships and mutual understanding are what makes a good job great. Empathy is key.

How did you feel after being recognized as one of the 100 top In-house lawyers in the Legal 500's GC Powerlist Japan 2023?

Wow, good question. I have to admit, I was super surprised to have been nominated and elected to the list. Looking at all these fabulous colleagues from all industries who made it, I felt and still feel deeply honored to stand alongside them. I am not a person that is working or aiming for awards, honors or whatever kind of reward there may be. I simply want to get my job done as best as possible, support my team members with all the input they need, and I can provide them with in order for us, as a team, but also for each single one individually, to strive towards excellence. But if this sort of work gets recognized by others, such as making the Legal 500's GC Powerlist Japan 2023, then it certainly

makes me happy as it also reassures me that what I am doing seems to be quite all right and keeps pushing me further in my work.

How do you think your career has changed since you started working and after being awarded with that recognition?

It's just been a few months, so there has not been much impact on a company level, yet. However, my professional exposure within the industry and the legal community in Japan but also worldwide has increased quite a bit and I really enjoy the interaction with other professionals.

What do you expect for your career and for the growth of the company?

Being recognized as one of the top 100 in house professionals in Japan hopefully attracts the interest of great talent wanting to work for us, so SEGA Legal can continue to be a valuable business partner within the company. As for my career: I hope that I can continue playing an important role in the legal community in Japan, or maybe even beyond. Coming to Japan as a foreigner was a challenge and a step into the unknown. But making the Powerlist certainly gives me the reassurance to continue on my path. As an optimist, the glass is always half-full, so whatever lies ahead, I am looking forward to it.

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Duc Doba:

"I believe adopting productivity tools to optimize paperwork and streamline workflows would be a great way to further embrace digital transformation in the industry".

Duc Doba is a self-starter born and raised in Thanh Hoa, Vietnam. In his second year of college at the Vietnam National University of Hanoi, he was granted a Japanese training scholarship by the company AXISSOFT. Duc has worked in engineering and managerial positions for the biggest tech companies in Japan, such as Rakuten, LINE, and SoftBank. Duc Doba founded Tokyo Techies in 2017, an IT consulting firm specializing in product development, cybersecurity, AI, IT due diligence, and providing business software solutions, Klever Suite. Duc was the president of the Vietnam Youth and Student Association in Japan. He also actively organized cultural and social activities for Vietnamese students and youths in Japan, and charity fund events for less fortunate Vietnamese children. He is also a member of the Hult Prize Foundation's Accelerator Expert Pool, where he has been connecting and supporting various startups for mentorships, attending and evaluating pitch events in his spare time when he's available.

In conversation with The Legal Industry Reviews, Duc Doba, Founder & CEO of Tokyo Techies, discusses the creation and goals of Tokyo Techies. In this interview, he also touches upon challenges in recruiting, promoting changes within companies, and provides advice for law firms on digital transformation, cybersecurity, and artificial intelligence adoption.

What inspired you to create Tokyo Techies?

The critical talent shortage of IT engineers in Japan propelled me to start Tokyo Techies in

Japan and our sister company, Tokyo Tech Lab, in Vietnam. I wanted to help bridge the gap between high demand and low supply of tech talents in Japan.

Tokyo Techies was originally an IT training company before progressing into business consulting and product development for AI, cyber security, and cloud building. We've been venturing into a different market for our company with Klever Suite, our very first SaaS product.

**What are the main goals of Tokyo Techies?
How does your team promote these goals?**

Japan lags behind digitization, requiring companies to act fast on their digital transformation journey. Our main goal is to address the DX challenges that Japanese companies face in two ways: one, providing one-stop IT consulting to resolve the lack of IT expertise in the enterprises and two, offering ready-to-use business software solutions, Klever Suite, that speeds up the digitization of business functions and improve productivity. In the long term, we'd like to foster strong product ownership, continuously innovate our products, and constantly bring forth new product ideas.

Which has been the biggest challenge in your career with Tokyo Techies?

As a one-stop IT consulting firm that aims to solve challenging business problems with high quality and speed, the biggest challenge in my career at Tokyo Techies is recruiting new team members who are skillful, fast learners, and, most importantly, fit well into our culture. Luckily, I am not doing it alone anymore – I have my core team members with me who share the same vision, mission, and values with me from very early on.

How do Tokyo Techies promote changes inside the companies they work for?

As a team, Tokyo Techies take pride in our flat organizational structure, with just two layers of management: the direct manager and the CEO. All members of the management team are

approachable. Any team member can share their requests, suggestions, and concerns, anytime to improve our work environment. We're genuinely committed to maintaining approachability and open communication as our work culture.

I believe change is driven by transparency, adaptability, and continuous evaluation. Actual change happens when everyone is well-informed, willing to alter the general course for improvement, and dedicated to self-assessment. In this spirit, the Tokyo Techies team constantly works closely with our clients, fostering open dialogue, embracing flexibility, and upholding transparency at every step of the journey to deliver our outcomes.

Thinking about law firms, how do you think they should go forward with digital transformations? How would you advise them in terms of cybersecurity or artificial intelligence?

We've had the great pleasure of working together with multiple law firms over the past. Putting that into perspective, I believe adopting productivity tools to optimize paperwork and streamline workflows would be a great way to further embrace digital transformation in the industry. Incorporating these tools will help reduce the loss in internal communications and improve client interactions.

Aside from this, leveraging AI's current capabilities also has excellent advantages. AI can accelerate fundamental tasks such as template creation, verifying contract terms, and managing other legal documents, helping law firms save time and resources.





APPLIED LAW

Easy to **write**, easy to **read**.





Data Protection

Digital Agency received PPC's enforcement action over My Number problems

On September 20, 2023, the Personal Information Protection Commission ("PPC") which is the data protection authority of Japan issued administrative guidance to the Digital Agency over misregistration of individual's bank accounts with My Numbers of other people.

My Number is a unique twelve digit number assigned to every resident in Japan. The Digital Agency launched a registration system of the bank account information for receiving public benefits in **March 2022**. Since then, the government has promoted registering the bank account information on the system and linking it with My Number. However, the cases where the bank account information is mistakenly linked with My Number have continuously been found throughout Japan, which reached **940** cases in **July 2023**.

In response to the successive mishaps, the PPC requested the Digital Agency to submit a report on these incidents on **June 15, 2023**, under the Act on the Protection of Personal Information ("APPI") and the Act on the Use of Numbers to Identify a Specific Individual in Administrative Procedures ("My Number Act"). On **July 19, 2023**, the PPC further conducted an onsite inspection of the Digital Agency to figure out this problem.

In the administrative guidance, the PPC stated that the continuous wrong linkage occurred due to the Digital Agency's insufficient identity verification and organizational/HR-related security measures. For example, the PPC pointed out that personnel of local governments did not fully implemented personal information management policies and failed to report or share the misregistration of the bank account information to an appropriate person. The administrative guidance also took the delay in filing a data breach notification by the Digital Agency seriously.

The administrative guidance instructed the Digital Agency to take the following actions:

- Identity verification when collecting My Number information
- Establishing an appropriate internal reporting system when a data breach incident occurs (Organizational security measures)

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- Reviewing My Number information handling procedures (Organizational security measures)
- Offering data breach notification training to the personnel (HR-related security measures)
- Conducting My Number protection assessment

The PPC requested the Digital Agency to report by **October 31, 2023**, on how the Digital Agency responded to the administrative guidance.

On the same day when the administrative guidance against the Digital Agency was issued, the PPC also issued another administrative guidance **(1)** to the National Tax Agency for the similar misregistration of the bank account and **(2)** to some local governments as well as Fujitsu Japan Ltd. which developed a certificate issuance system for wrong issuance of official certificates (such as a certificate of residence).

These recent enforcement cases show that the PPC is actively enforcing the APPI and My Number Act against the public sector. Until recently, the APPI applied only to the private sector and there were different privacy laws applicable only to the public sector, including governmental authorities and local governments. However, the amendments to the APPI which fully took effect in **April 2023** integrated these separate privacy laws into the APPI. This shift made the PPC become an authority to enforce the APPI not only to the private sector but also to the public sector.





Practice Area News

PPC's guidance on thermal cameras. On **September 13, 2023**, the **PPC** released guidance on the use of thermal cameras.

The guidance reminds that thermal camera users which collect facial images through the cameras are required to comply with the privacy requirements such as notifying the data collection via the thermal cameras with processing purposes and deletion of the facial images without delay. The guidance also requires thermal camera manufacturers and sellers to clarify that.

Draft amendments on data breach notification obligation. The draft amendments to the implementing regulations and relevant guidelines of the APPI to add a new type of notifiable data breach was published on **September 14, 2023**. The draft amendments are under the public consultation process, which will end on **October 13, 2023**.

Data breach caused by web skimming will need to be notified once the amendments take effect. They are scheduled to be effective on **April 1, 2024**.

PPC's administrative guidance to Toyota. On **July 12, 2023**, the **PPC** issued administrative guidance to Toyota Motor Corporation for improper processing of personal information relating to its connected services. The guidance revealed that personal information of around 2.3 million users can be seen for approximately 10 years due to lack of proper access controls. The PPC required to Toyota to educate its employees, implement proper access controls and monitor its data processing service providers.

PPC's administrative guidance to general transmission and distribution companies. On 29 June 2023, the PPC issued administrative guidance to general transmission and distribution companies for improper collection of personal information, insufficient security measures and failure to monitor data processing service providers.

The guidance required the general transmission and distribution companies to take measures to improve the non-compliant practices.

In the Firm

• **Connect on Tech – online data protection portal.**

Connect on Tech is our online portal reporting on global developments in data protection, data security, information management and more.

Read more [HERE](#).

• **Global Data Privacy and Security Handbook.**

Our highly sought-after Global Data Privacy and Security Handbook provides detailed and forward-looking information on data privacy & security standards in over 50 countries.

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Fintech

RWA Token and Japanese Laws

Recently, we have often been asked if tokens linked to the value or ownership of a real world asset ("RWA tokens") can be issued and sold in Japan. The types of real assets linked to tokens include artwork, real estate, whiskey, vintage cars, government bonds, securities, gold, etc. Tokenizing RWAs offers advantages such as the ability to own high value assets in installments and ease of transfer. Applicable regulations to RWA tokens vary depending on the types of tokenized assets and the scheme.

We will provide an overview of the applicable regulations to RWA tokens and then substantive legal issues of RWA tokens.

Crypto Regulation

If RWA tokens fall under the category of crypto assets, to sell and purchase such tokens as a business requires a license of a crypto asset exchange. For example, Zipang Coins, which are tokens representing gold, are structured as crypto assets. On the other hand, most RWA tokens are structured as NFTs, as NFTs are not regulated in Japan. FSA requires NFTs to satisfy the following requirements: (i) the use as a means of payment to unspecified persons is prohibited, and (ii-a) the number of issued tokens is less than 1 million, or (ii-b) the transaction price is more than JPY 1,000.

Fund Regulation

If RWA tokens fall under the category of securities, to sell and purchase such tokens as a business requires a license of a financial instruments business operator. If the token holder is to receive a dividend linked to the success or failure of the business conducted with the token consideration, it may fall under the category of securities.

Deposit Transaction Regulation

A scheme in which goods are deposited to business providers, and the benefit thereof is to be provided to users, may be regulated as deposit transactions. Further, if the deposit transaction scheme involves the sale of goods to users, the transaction requires approval from the government. The approval has never been gotten; thus, the difficulty of obtaining the approval is uncertain.

Both deposit transaction regulations and fund regulation should be considered if there is a promise of a dividend of financial benefit to token holders.

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Secondhand Goods Business Regulation

A business that sells, purchases, or exchanges once-used goods such as artwork may be subject to the secondhand goods business regulation. In such cases, notification to the police agency and KYC process is required. It is conceivable, however, that this regulation would not apply to the division and sale of the right of secondhand goods.

Other Regulations

In addition to the above, sales, etc., of some assets might require special regulations. For example, to sell alcohol needs an alcohol sales license.

Substantive legal issues

Compared to a simple sale of real world assets, RWA tokens require more careful consideration of what rights will be transferred and how requirements for perfection will be satisfied. It should be noted that holding RWA tokens does not necessarily mean having ownership of real assets. Further, the requirement for perfection of the transfer of real estate is the registration, and the only transfer of tokens on a blockchain may not be duly asserted against a third party to whom the real estate is simultaneously transferred.





Practice Area News

Amended Payment Services Act. The amended Payment Services Act governing crypto assets and other payment methods was enacted on June 1, 2023. The concept of "electronic payment instruments" has been newly established as a correspondence to stablecoins, which had not been clearly defined, and regulations regarding their issuance and intermediation have been clarified.

Stricter Travel Rules. Stricter regulations for anti-money laundering of crypto asset came into effect on June 1, 2023. According to the new "Travel Rules," when assets over a certain amount of crypto are sent by a customer, the receiving and sending crypto exchanges must share information about the customers. The lack of interoperability in such information sharing systems has prevented users from sending and receiving crypto assets between crypto exchanges.

Investment in security tokens by LPS. The businesses that Investment Limited Partnerships (LPS) may engage in are limited listed in the LPS Act. It was not clear whether security tokens were included in the list. On April 19, 2023, the Ministry of Economy, Trade, and Industry (METI) published a notice clarifying the interpretation regarding the ability of LPS to invest in security tokens. The notice also clarified that LPS might not acquire or hold crypto assets and stable coin.

In the Firm

• **So & Sato Law Offices was highly recognized in the "FinTech" and "Investment funds" categories of the Legal 500 Asia Pacific 2022 – 2023.**

Chambers & Partners ranks So Saito top FinTech lawyer 2022.

Best Lawyers recognizes So Saito for Banking and Finance Law, Financial Institution Regulatory Law and FinTech Practice for 2024.

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Insurance

Development of solvency framework in Japan (as of September 2023)

It has been pointed out that the current insolvency regime based on the lock-in method does not adequately reflect the medium- or long-term risk structure of insurance companies. In response to the concerns regarding the current insolvency regime, the economic value-based approach is considered effective for management of insurance business with full consideration of future risks.

Since 2010, the Financial Services Agency of Japan (the "FSA") had been conducting studies on an economic value-based solvency regime through field tests covering all Japanese insurance companies and working towards the adoption of a specific framework concerning the economic value-based solvency regime.

Also, each Japanese insurance company is developing an internal framework used to calculate its internal economic value-based solvency ratio on a voluntary basis to monitor its financial soundness and to supplement its solvency margin ratio under the current regulation, considering current proposals to adopt the Insurance Capital Standard (the "ICS").

Through analysis of the results of the field tests and discussion with insurance companies and related parties, the FSA announced the framework and basic content of an economic value-based solvency regime that will amend the current solvency regulations applicable to Japanese insurance companies as follows.

In June 2020, the FSA published the "Report of the Advisory Council on Economic Value-based Solvency Framework", referred to the necessity of moving to an economic value-based solvency framework and of measuring the soundness of the management of insurance companies based on the following "three pillars" approach:

- Pillar 1 (Solvency Framework): Establish certain common standards for solvency ratios and a framework for supervisory intervention as a backstop to protect policyholders.
- Pillar 2 (Internal Controls and Supervisory Review): Capture risks not captured by Pillar 1 and promote the review and enhancement of internal controls of insurance companies.
- Pillar 3 (Disclosure): Encourage appropriate communication between insurance companies and their external stakeholders and appropriate governance of insurance companies.

Then, in the "Status of Consideration of Economic Value-based Solvency Regulation" released by the FSA in June



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2021, the FSA presented the analysis of possible issues relating to each of the three pillars.

Further, in June 2022, the FSA released the "Tentative Decisions on the Fundamental Elements of the Economic Value-based Solvency Regulation," which include tentative conclusions on the concept of the standard model related to the new solvency framework and basic direction regarding the basic contents of such framework.

In response, in June 2023, the FSA released the "Status of Discussions to Finalize Standards for the Economic Value-based Solvency Regulation" (the "2023 FSA ESR Document"), which presents issues and the status of discussions toward finalization of the standards for developing internal systems in insurance companies and promoting an understanding of the new framework. The 2023 FSA ESR Document includes discussions regarding the following items; **(1)** Pillar 1 (Solvency Framework) – standard model, **(2)** Pillar 1 (Solvency Framework) – utilization of internal models, **(3)** Framework for verification of Economic value-based Solvency Ratio, **(4)** Supervisory measures based on Economic value-based Solvency Ratio, **(5)** Pillar 2 (Internal Controls and Supervisory Review), and **(6)** Pillar 3 (Disclosure).

The FSA assumes that the standards for the new solvency framework will be published around Spring 2024 and after publishing and implementing the relevant regulations and notices, etc., in 2025, will require that insurance companies calculate and report their Economic Value-based Ratios from the fiscal year ending March 31, 2026.





Practice Area News

Publication of "2023 Insurance Monitoring Report" by the Japanese FSA. On July 30, 2023, the Japanese FSA published the "2023 Insurance Monitoring Report," which includes financial administrative issues and major achievements regarding the following topics: **(1)** development of the insurance business, **(2)** ensuring financial soundness of insurance companies, **(3)** customer-oriented business operation of insurance companies, and **(4)** improvement of internal systems of small amount and short-term insurers.

Field test on economic value-based valuation and supervisory measures for FY 2023. On August 31, 2023, the Japanese FSA released specifications and templates for field tests of economic value-based valuations and supervisory measures for FY 2023 which will be implemented based on the "Status of Discussions to Finalize Standards for the Economic Value-based Solvency Regulation" published in June 2023.

In the Firm

• Delivering diverse solutions across Asia

Nishimura & Asahi is Japan's largest full-service international law firm. We have a strong global presence, particularly in Southeast Asia, with our experienced and locally qualified lawyers

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• Our dedicated Insurance team

We are best known for providing our clients with optimal solutions for insurance disputes and regulatory issues and leading complex insurance M&A transactions to successful completion.

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How should companies manage the risks on human rights?

While laws and regulations (so called "hard law") on "Business and Human Rights", including the obligations of human rights due diligence ("human rights DD"), are being developed in many countries, especially in Europe, no hard law has been established in Japan yet. Under this circumstance, how should Japanese companies manage the risks on human rights?

Overview of the guidelines on "Business and Human Rights" in Japan

The Japanese government and public agencies have established various guidelines and materials on "business and human rights" in the past year or two.

The Government of Japan released the "Guidelines on Respecting Human Rights in Responsible Supply Chains" (hereinafter the "Guidelines") on September 13, 2022.

The purpose of the Guidelines is to help deepen business enterprises' understanding and promote their efforts by explaining the activities that business enterprises are requested to undertake to respect human rights, based on "the Guiding Principles on Business and Human Rights: Implementing the United Nations 'Protect, Respect and Remedy' Framework" (hereinafter "UN Guiding Principles"), and other international standards. The Guidelines state that business enterprises are required to (i) formulate their human rights policy, (ii) conduct human rights DD, and (iii) provide remedy when business enterprises cause or contribute to adverse human rights impacts, the same as the framework of UN Guiding Principles.

The Guidelines are not legally binding and it only states that all business enterprises, including sole proprietors, engaging in business activities in Japan should strive to respect human rights in their business enterprise, group companies, suppliers, etc. inside and outside of Japan.

Relating to the Guidelines, the Ministry of Economy, Trade, and Industry released a series of documents titled "Reference Material on Practical Approaches for Business Enterprises to Respect Human Rights in Responsible Supply Chains" (the "Reference Material") on April 4, 2023. The Reference Material provides examples of points to consider and the implementation flow for establishing a human rights policy, which business enterprises should do first and for identifying and assessing adverse human rights impacts, which is the first step in human rights DD.



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Also, the Ministry of Agriculture, Forestry, and Fisheries will establish the guidelines on Business and Human Rights for business enterprises in the food industry this Autumn.

How should business enterprises deal with "Business and Human Rights"?

In cases where hard laws are established, business enterprises have no choice but to comply with and practice those laws. In this sense, what they need to do is clear.

On the other hand, even without established hard laws, business enterprises still have a strong incentive to follow guidelines and other related materials. If businesses act with disregard for human rights, they may damage their reputation and/or risk business continuity, such as contract termination or claim for damages.

To manage the above-mentioned risks, business enterprises should consider what they do and how they approach human rights policy, human rights DD, grievance mechanisms, etc.

It is important for business enterprises to appropriately imagine how their business and reputation could be adversely affected by actions that disregard human rights. As a first step, business enterprises should precisely understand the global standards on business and human rights, the Guidelines, and other related materials in Japan.





Practice Area News

Amendment of the Unfair Competition Prevention Act (UCPA). On June 7, 2023, the UCPA was amended to strengthen regulations on bribery of foreign public officials. The amendment increases statutory penalties for natural persons and legal entities and expand the scope of punishment to include bribery by non-Japanese officers and employees of Japanese companies overseas. The amended UCPA is scheduled to go into effect within one year from June 14, 2023, which is the promulgation date thereof.

The Release of the Training Materials for Outside Directors. On June 30, 2023, the Ministry of Economy, Trade and Industry published "Eight Points for Utilization of Study and Training for Outside Directors" and "Case Study Collection for Outside Directors" to encourage the use of training for outside directors to improve the quality of outside directors. The materials state that improving the quality of outside directors is the key to substantive corporate governance reform.

Amendment of the Private Schools Act. On April 26, 2023, the Private Schools Act was amended to strengthen the reform of governance in private schools. One of the background reasons for the amendment was a series of scandals at private schools. The amendment includes various revisions on the role of directors, councilors, and auditors. The amended Private Schools Act is scheduled to go into effect on April 1, 2025.

Report of Study Group for Ensuring the Safety of Consumer Products. On June 30, 2023, the Study Group for Ensuring the Safety of Consumer Products published their report regarding 4 Product Safety Acts such as the Consumer Product Safety Act, Electrical Appliances and Materials Safety Act, Gas Business Act, and the Act on Securing Safety and the Optimization of Transaction of Liquefied Petroleum Gas. The report points out the issues of online shopping and the safety of the products for children.

In the Firm

• M&P ranked in IFLR 1000's 33rd edition

M&P received high evaluations in IFLR1000's 33rd edition in the practice areas of M&A (Tier 3) and Private equity (Tier 3). Our lawyers received high evaluations in Corporate and M&A.

• Award of M&A Deal of the Year (Midsize)

M&P has received M&A Deal of the Year (Midsize) at the ALB Japan Law Awards 2023. M&P has been nominated for seven categories, including Japan Law Firm of the Year.



Miura & Partners

Recent developments in labor-related taxation

The Japanese government has been tackling to reform the Japanese labor market to increase labor mobility, believed to be essential for revitalizing the Japanese economy, particularly by encouraging talented workers into start-ups and technology industries. Also, wage increases are another key element to achieving a virtuous economic cycle and sustainable growth under the underlying inflation trend.

Taxation of Stock Options

Stock options ("SO") in Japan are taxed differently depending on the terms, i.e. (a) whether or not they are issued for cash consideration (i.e. paid SO vs incentive SO); and if not, (b) whether or not they meet certain requirements (i.e. tax-qualified SO vs non-qualified SO). In general, individuals who purchase paid SOs at FMV and sell the stocks after exercising such paid SOs will be taxed on the difference between the stock sales price and the SO exercise price as capital gain at a rate of 20.315%, while there is no taxable event upon the exercise. Individuals who are granted tax-qualified SOs will also be taxed in a similar manner, while individuals who are granted non-qualified SOs will be taxed twice, i.e. (i) upon the exercise on the difference between FMV of the stock (stock acquisition price) and the SO exercise price as salary income subject to the progressive tax rates up to 55%, and (ii) upon the sale of the stock for the difference between the stock sales price and the stock acquisition price as capital gain at a rate of 20.315%. In practice, an alternative form of SO, so-called "trust-type SO," was widely used as it was believed to be treated like paid SO. However, since the National Tax Agency ("NTA") publicly announced in May that trust-type SO should be taxed as non-qualified SO, many companies that have adopted trust-type SO now face challenges in dealing with the situation.

One of the approaches is to "convert" the existing trust-type SO into tax-qualified SO. There are various requirements for tax-qualified SO, including that the SO exercise price must be higher than FMV of the stock at the grant, which hindered many companies from using this scheme due to the uncertainty in evaluating the value of a private company's stock without rules like 409A valuation in the US. However, on July 7, the NTA clarified that a net asset-based



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approach can be used for this purpose, allowing many SO to meet the requirements without a complicated valuation.

In addition, the Ministry of Economy, Trade and Industry ("METI") is proposing to reform some requirements for tax-qualified SO, including easing a grant of SO to external advisors and specialists and removing the annual maximum exercise limit (currently JPY 12 million). These will be further discussed later this year as part of the 2024 tax reform plan.

Tax Incentives for Wage Increases

Another proposal by the METI for the 2024 tax reform plan is to expand the tax credits for wage increases. The current incentives will expire on March 31, 2024; however, it is strongly expected that the plan will be extended for many years, and a carryforward credit mechanism will be introduced to encourage companies currently not making a profit to increase their wages under the scheme. It is also proposed to introduce an additional credit mechanism available for companies that support childcare and promote diversity in the workplace.





Practice Area News

Introduction of J-CAP Regime. The compliance assurance program of Japan (J-CAP) was introduced by Tokyo Regional Taxation Bureau (TRTB) on a trial basis in **October 2023**. In the J-CAP regime, a company attempting to engage in an unprecedented business may consult with TRTB in advance regarding tax treatments. TRTB shall provide verbal responses within 45 working days. However, currently, only large companies with a stated capital of JPY 4 billion or more can utilize this regime.

Local Implementation of Global Minimum Tax Rate. In **June 2023**, for locally implementing an effective 15 percent global minimum corporate tax rate in accordance with the OECD initiative, **the Government of Japan** promulgated the amended Enforcement Order and Regulations concerning legislation to "top-up" tax with effect for fiscal years commencing on or after **April 1, 2024**. The legislation is generally based on the **OECD's** model Global Anti-Base Erosion (GloBE) Rules, but does not include the Under Taxed Profits Rule (UTPR).

Japan Customs' Change in Interpretation of Importer of Record. Japan Customs amended the Circular Notices for the interpretation of the importer of record, which was put into effect on October 1, 2023, in order to strengthen the enforcement of taxation at the time of import. The Circular Notices states that **(1)** a person who can freely dispose of the imported goods or **(2)** a person who acts on the purpose of the import can become an importer of record.

National Tax Tribunal's Decision on Withholding Tax Obligation. Details of a recent decision by the **National Tax Tribunal** on withholding tax obligation on interest debt forgiveness were made public by a famous tax journal. The decision held that a Luxembourgian parent company's debt forgiveness of interest payable for its Japanese subsidiary is construed as a "payment" subject to withholding tax under the double tax treaty between Japan and Luxembourg, which is consistent with the interpretation under Japanese tax law.

In the Firm

- DLA Piper advises Japanese and non-Japanese multinationals on cross-border M&A, private equity and venture financing, regulatory, compliance, employment, finance, tax, and real estate. We also represent dispute resolution and investigations.
- The firm has been consistently recognized as a leading law firm for its Japan Tax practice in Chambers Asia Pacific, Legal 500 Asia Pacific, and International Tax Review.



TMT

Exploring new legal frontier on AI, web3 and Metaverse

The NO&T TMT Practice Team actively advises our clients involved in IT, Internet, broadcasting and telecommunication business as well as those involved in the entertainment and media-related industries, including TV broadcasting, film, music, publishing, advertising, video gaming and the professional sports industries. In addition to providing legal advice on these businesses themselves, we provide corporate/M&A, finance and dispute resolution services to companies engaged in these businesses by swiftly assembling groups of highly skilled team members who possess special knowledge and experience in these cutting-edge technologies and businesses. We are also particularly strong in handling space-related matters. Drawing on our extensive experience and knowledge of space law, we provide one-stop support to both "Old Space" and "New Space" clients in financings, business collaborations, and contract negotiations (including cross-border negotiations and those with space agencies).

We have a robust regular client base including domestic and international key players in each market, and provides day-to-day legal advice to such clients in the TMT fields. We also provide our clients in fields other than technology with legal advice in their technology-related transactions, such as MaaS, Smart city, Fintech, and Healthtech.

The firm's TMT Practice Team was recognized as Technology, Media, and Telecommunications Law Firm of the Year by ALB Japan Law Awards 2022, and as Tier 1 in TMT Independent Local Law Firms by the Legal 500 Asia Pacific 2023 and the Spotlight Table by Chambers Asia-Pacific 2023 (TMT).

Mr. Soichiro Fujiwara, co-head of the firm's TMT Practice Team, has been recognized as ALB Asia Super 50 TMT Lawyers 2023, and as Leading Individuals in TMT by the Legal 500 Asia Pacific 2023. He also received the ALB Dealmakers of Asia 2021.

Mr. Keiji Tonomura, co-head of the firm's TMT Practice Team, was recognized as Spotlight Table in Chambers Asia-Pacific 2023 (TMT), Next Generation Partner in Legal 500 Asia Pacific (TMT and Fintech) (2023), and The Best Lawyers in Japan 2024 (Fintech Practice; Information Technology; and Technology). He is a frequent speaking as well as a country author of Chambers TMT 2023 Global Practice Guide

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(Japan) – Trends and Developments, Chambers Fintech 2023 Global Practice Guide (Japan) – Trends and Developments, and Chambers AI 2023 Global Practice Guide (Japan) – Law and Practice/Trends and Developments. Also, he is a country author of the Legal 500: Technology Comparative Guide – Japan.

We are also active in contributing to the policy-making process on the cutting-edge areas, including generative AI, web3, and Metaverse. For instance, Keiji is a member of the two project teams established in the Digital Society Promotion Headquarters, Liberal Democratic Party of Japan: one is the "Project Team on Innovation and Implementation of AI", which recently published the AI White Paper in April 2023; and the other is the "web3 Project Team", which published the well-known web3 White Paper in April 2023. (Read more [HERE](#)) He also served as a member of the "Web3.0 Study Group," which was established in the Digital Agency of Japan in 2022 (as the only lawyer in the Group). We will continue to actively engage in a policy-making process while providing our clients with practical and innovative advice with respect to new legal issues and challenges, and thereby contribute to the implementation of new technologies.





Practice Area News

AI White Paper. In April 2023, the AI White Paper – Japan’s National Strategy in the New Era of AI – was issued by the Project Team on Innovation and Implementation of AI established in the Digital Society Promotion Headquarters, **Liberal Democratic Party of Japan**. This white paper proposed a new national AI strategy to address the impact of social implementation of Large Language Models (LLMs) such as ChatGPT.

G7 Hiroshima Summit. Japan hosted G7 Hiroshima Summit that was held in May 2023. In the G7 Hiroshima Leaders’ Communiqué, it is agreed to advance international discussions on inclusive artificial intelligence (AI) governance and interoperability to achieve our common vision and goal of trustworthy AI, in line with our shared democratic values, and to establish the Hiroshima AI process for discussions on generative AI by the end of this year.

New Cookies Regulations. In June 2023, the new cookies regulations under the Telecommunications Business Act came into force. The new external data transmission rule requires certain telecom businesses to give prior notification or take other measures before they direct the transmission of user information recorded in the user’s device (such as third-party cookies, tags, and advertising IDs) to anyone other than the user themselves (including third parties and such telecom businesses).

web3 White Paper. Following the NFT White Paper published in the spring of 2022, the web3 White Paper – Towards an era of mass adoption of Digital Assets – was issued in April 2023 by the web3 Project Team established in the Digital Society Promotion Headquarters, **Liberal Democratic Party**. This white paper summarizes the issues to be address immediately for promoting web3, such as tax reform and establishment of special laws for LLC-type DAOs.

In the Firm

• Commenced Operations in Jakarta.

On February 1, 2023, NO&T commenced operations in Jakarta under the name of “IM & Partners in association with Nagashima Ohno & Tsunematsu”.

Read more [HERE](#).

• ALB Asia Super 50 TMT Lawyers 2023

Soichiro Fujiwara has been selected as one of the 50 most highly recommended TMT practitioners in the ALB Asia Super 50 TMT Lawyers 2023.

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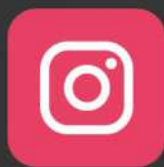
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