

Arbitration procedures and practice in Japan: overview

Yutaro Kawabata, Azusa Saito and Motonori Ezaki, Nishimura & Asahi

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USE OF ARBITRATION AND RECENT TRENDS

1. How is commercial arbitration used and what are the recent trends?

Use of commercial arbitration and recent trends

Commercial arbitration is used less frequently than court proceedings in Japan as a means to settle disputes. However, since Law No. 138 of 2003 (Arbitration Law) came into force on 1 March 2004, international commercial arbitration has become increasingly common.

Economic growth in developing countries, especially in Asia, has resulted in increased trade between Japan and those countries. Japanese companies doing business with these countries have been finding arbitration preferable to litigation, because:

- Arbitration is considered more reliable than litigation in developing countries.
- Arbitral awards are generally more easily enforceable than foreign court judgments.

These changes have given rise to a paradigm shift among practitioners, including in-house counsel, and established a general awareness of arbitration as a mean to resolve disputes.

According to the Japan Commercial Arbitration Association (JCAA), there were nine cases filed in 2019 (compared with 18 cases in 2016, 14 cases in 2017 and 13 cases in 2018). In 2020, as of November 30, 17 arbitration cases had been filed with JCAA.

The number of ICC cases involving Japanese companies has gradually increased and has become stable in recent years (total number of Japanese parties: 29 in 2017, 31 in 2018 and 28 in 2019).

The number of Singapore International Arbitration Centre (SIAC) cases involving Japanese companies has also increased and has become stable in recent years (total number of Japanese parties (including subsidiaries): 27 in 2017, 30 in 2018 and 26 in 2019).

Other changes

Other changes affecting arbitration include the following:

- The Act on Special Measures concerning the Handling of Legal Services by Foreign Lawyers (Foreign Lawyers Act) was amended on 22 May 2020 and major parts of the amendment came into force on 29 August 2020. The amended Foreign Lawyers Act eases the requirements for foreign lawyers to represent clients in international arbitration conducted in Japan by expanding the definition of "international arbitration case" (*Article 2(xi), Foreign Lawyers Act*) (see *Question 37*).
- The Arbitration Law of Japan, enacted in 2003, was based mostly on the 1985 UNCITRAL Model Law and does not reflect the 2006 amendments to Model Law. In order to facilitate international arbitration in Japan and modernize the Arbitration Law in accordance with international standards, the Legislative

Council of the Ministry of Justice has recently established a Review Committee to work on an amendment to the Arbitration Law. The Committee is currently discussing possible amendments to the Arbitration Law, including provisions on enforcement of interim measures, enforcement of mediated settlement agreements, and the jurisdiction of the courts concerning arbitration procedures, among other issues.

- The Japan International Dispute Resolution Center (JIDRC) was established in February 2018 as an agency to promote international arbitration and mediation in Japan, based upon the interim report of the "Liaison Conference of Relevant Ministries and Agencies Toward Invigoration of International Arbitration" of the Japanese Government. JIDRC performs operations of arbitration and mediation hearing facilities, education of professionals such as arbitrators and mediators, as well as public relations and raising awareness towards domestic and overseas companies and legal professionals. JIDRC started operation of its hearing facilities in Osaka in May 2018 and Tokyo in March 2020.

Advantages/disadvantages

The main advantages of using arbitration are:

- Japan is a contracting state to the New York Convention, and enforcement of arbitral awards in other contracting states is possible.
- The parties to the arbitration can choose arbitrators who are neutral and who have expertise in the disputed issues.
- Since Japanese court procedure adopts a three-tiered court system, choosing arbitration should result in a speedier final disposition of disputes.

Some disadvantages are:

- Arbitration can be more costly than court litigation (taking account of costs such as arbitrators' remuneration, filing fees at the arbitration institution, and hearing facility fees).
- Document disclosure procedures can be a heavy burden on parties (compared with court litigation, where the Japanese Code of Civil Procedure does not provide for "discovery" as understood in common law countries).
- Japanese laws do not provide procedures for compulsory enforcement of an arbitral tribunal's orders for injunctive relief.

LEGISLATIVE FRAMEWORK

Applicable legislation

2. What legislation applies to arbitration? To what extent has your jurisdiction adopted the UNCITRAL Model Law on International Commercial Arbitration 1985 (UNCITRAL Model Law)?

The Arbitration Law governs arbitration seated in Japan. In addition, the Supreme Court Rules on Procedures of Arbitration

Related Cases (Supreme Court Rules No. 27, 26 November) provides the specific procedural rules applicable to court cases related to arbitration proceedings.

The Arbitration Law incorporates most of the provisions of the UNCITRAL Model Law on International Commercial Arbitration 1985 (before the amendments adopted in 2006) and it:

- Expressly acknowledges the separability and *kompetenz-kompetenz* of arbitration.
- Provides that no court can intervene in arbitral proceedings except where so provided in law.
- Provides narrow grounds for setting aside or refusing recognition and enforcement of an arbitral award, by adopting the grounds of the Model Law almost verbatim.

The Arbitration Law does deviate from UNCITRAL Model Law in that it:

- Governs both domestic and international arbitrations.
- Provides special treatment for arbitration agreements involving consumers and individual employees (see *Question 4*).
- Provides that, if agreed by both parties in writing, the arbitral tribunal or one or more of the arbitrators selected by the tribunal can attempt to assist negotiations towards an amicable settlement.

The Arbitration Law further provides that where an arbitration agreement is made by way of electronic or magnetic record (such as e-mail), it will be deemed to have been made in writing.

The Arbitration Law does not reflect the 2006 amendments to the UNCITRAL Model Law, which came in effect after the Arbitration Law became effective in 2004. The Japanese Federation of Bar Associations has issued a recommendation on 21 June 2019 proposing that the 2006 amendments be reflected into the Arbitration Law and the Legislative Council of the Ministry of Justice is currently working on an amendment to the Arbitration Law.

Mandatory legislative provisions

3. Are there any mandatory legislative provisions? What is their effect?

Most of the provisions of the Arbitration Law regarding arbitral procedures can be modified by agreement between the parties, but certain mandatory procedural rules affecting procedural public policy are fixed, such as the limited availability of court intervention and the equal and fair treatment of the parties. If the parties and/or an arbitral tribunal do not follow such mandatory provisions, it constitutes grounds to apply for the arbitral award to be set aside.

4. Does the law prohibit any types of dispute from being resolved through arbitration?

The Arbitration Law provides that an arbitration agreement is valid only when the subject matter relates to a civil dispute that can be resolved by settlement between the parties (disputes concerning divorce and dissolution of adoptive relations are expressly excluded) (*Article 13(1), Arbitration Law*). A consumer can unilaterally terminate an agreement with a business operator to arbitrate disputes that may arise in the future (*Appendix Article 3(2)*). Also, an arbitration agreement relating to disputes that may arise in the future between an individual employee and a business employer will be null and void (*Appendix Article 4*).

Limitation

5. Does the law of limitation apply to arbitration proceedings?

The amended Japanese Civil Code came into effect on 1 April 2020, and provides prescriptions for claims to extinguish on the lapse of a certain period if the claims have not been exercised. Civil and commercial claims in general will extinguish if they are not exercised for five years after the obligee came to know of the exercisable rights or ten years after the rights became exercisable (*Article 166(1), Civil Code*). Commencement of legal proceedings, including arbitration will postpone the expiry of the prescriptive period. However, this does not apply to cases where the arbitration procedure has been terminated without an arbitral award (*Article 29(2), Arbitration Law*).

ARBITRATION INSTITUTIONS

6. Which arbitration institutions are commonly used to resolve large commercial disputes?

Large commercial disputes involving Japanese parties are commonly referred to arbitration administered by the:

- Japan Commercial Arbitration Association (JCAA) (<https://www.jcaa.or.jp/en/>).
- International Chamber of Commerce (ICC).
- Singapore International Arbitration Centre (SIAC).

Other main arbitration organisations include the:

- Tokyo Maritime Arbitration Commission (TOMAC) of the Japan Shipping Exchange (<http://www.jseinc.org/en/tomac/index.html>).
- Alternative Dispute Resolution Centres of Bar Associations (ADR Centres) (https://www.nichibenren.or.jp/legal_advice/search/other/conflict.html).

The JCAA is the most commonly used local arbitration institution to resolve international commercial disputes.

JURISDICTIONAL ISSUES

7. What remedies are available where one party denies that the tribunal has jurisdiction to determine the dispute(s)? Does your jurisdiction recognise the concept of kompetenz-kompetenz? Does the tribunal or the local court determine issues of jurisdiction?

The Arbitration Law specifically addresses the concept of *kompetenz-kompetenz*. An arbitral tribunal can rule on its own jurisdiction, including a ruling on any allegations on the existence or validity of an arbitration agreement (*Article 23(1)*). Where an arbitral tribunal rules that it has jurisdiction, any party can request, within 30 days of receiving notice of that ruling, that a Japanese court decides whether or not the tribunal has jurisdiction (*Article 23(5)*). The arbitral tribunal can continue the arbitral proceedings and render an award while such a request is pending in court (see *Question 24*).

ARBITRATION AGREEMENTS

Validity requirements

8. What are the requirements for an arbitration agreement to be enforceable?

Substantive/formal requirements

Formal requirements. Arbitration agreements must be in written form (*Article 13(2), Arbitration Law*). Documents signed by all parties, letters or telegrams exchanged between the parties (including faxed documents) and other written instruments satisfy the writing requirement. Reference in a written agreement to a separate document containing an arbitration clause and an arbitration agreement made by electronic or magnetic record (for example, by e-mail) also satisfies the written form requirement (*Article 13(3)-(4), Arbitration Law*).

In addition, if a request for arbitration submitted by either party contains the contents of an arbitration agreement and the written response submitted by the other party does not contain anything to dispute it, such arbitration agreement is deemed to have been made in writing (*Article 13(5), Arbitration Law*).

Substantive requirements. See *Question 4*.

Separate arbitration agreement

Under the Arbitration Law, there is no need for an arbitration agreement to be a separate agreement. A clause in the main contract is sufficient.

A reference in a written agreement to a separate document containing an arbitration clause will satisfy the written form requirement (*Article 13(3), Arbitration Law*).

Unilateral or optional clauses

9. Are unilateral or optional clauses, where one party has the right to choose arbitration, enforceable?

There are no provisions in the Arbitration Law that specifically stipulate whether unilateral or optional clauses, where one party has the right to choose arbitration, are enforceable. We are not aware of any published court decisions on this subject.

10. In what circumstances can a party that is not a party to an arbitration agreement be joined to the arbitration proceedings?

The Arbitration Law does not specifically stipulate whether and in what circumstances a party that is not a party to an arbitration agreement can be joined to arbitration proceedings.

An arbitration clause does not generally apply to third parties that are not signatories to the contract containing an arbitration clause.

However, there is a case in which the Japanese lower court found that an arbitration agreement entered into by a company extends to individuals closely associated with that company, such as the representative director of the company, to resolve the related disputes in a unified manner.

Under such circumstances, it may be permitted to join non-signatories to an arbitration agreement to the arbitration proceedings.

The Arbitration Law does not restrict joinder of parties under institutional rules.

11. In what circumstances can a party that is not a party to an arbitration agreement compel a party to the arbitration agreement to arbitrate disputes under the arbitration agreement?

The Arbitration Law does not stipulate whether and in what circumstances a party that is not a party to an arbitration agreement can compel a party to the arbitration agreement to arbitrate. We are not aware of any published court decisions on this subject.

Separability

12. Does the applicable law recognise the separability of arbitration agreements?

The Arbitration Law recognises the separability of arbitration agreements.

If any or all of the contractual provisions (excluding the arbitration agreement) in a contract are found to be null and void, cancelled or for other reasons invalid, the validity of the arbitration agreement is not necessarily affected (*Article 13(6), Arbitration Law*).

Breach of an arbitration agreement

13. What remedies are available where a party starts court proceedings in breach of an arbitration agreement or initiates arbitration in breach of a valid jurisdiction clause?

Court proceedings in breach of an arbitration agreement

Where a party to a valid arbitration agreement files a lawsuit in a Japanese court, the other party can move to dismiss the claim based upon the existence of that arbitration agreement.

A court before which an action is brought in a civil dispute which is the subject of an arbitration agreement must dismiss the action if the defendant so requests, except when (*Article 14(1), Arbitration Law*):

- The arbitration agreement is null and void, cancelled or for other reasons invalid.
- Arbitration proceedings are inoperative or incapable of being performed based on the arbitration agreement.
- The request is made by the defendant after the presentation of its statement in the oral hearing or in the preparations for argument proceedings on the substance of the dispute.

If a Japanese court deems the arbitration agreement to be valid under Article 14, it simply dismisses the claims that have been brought before the court and does not issue an order to compel arbitration or to stay the litigation. This is one deviation from the UNCITRAL Model Law, under which the court will refer the parties to arbitration.

Arbitration in breach of a valid jurisdiction clause

An arbitral tribunal can rule on its own jurisdiction, including a ruling on any allegations regarding the existence or validity of an arbitration agreement (*Article 23(1), Arbitration Law*) (see *Question 7*). If an objection is made to the arbitral tribunal regarding its jurisdiction, Article 23(4) provides that the tribunal must do either of the following:

- Make a preliminary independent ruling or an arbitral award, if it considers it has jurisdiction.

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- Make a ruling to terminate the arbitral proceedings, if it considers it has no jurisdiction.

14. Will the local courts grant an injunction to restrain proceedings started overseas in breach of an arbitration agreement?

There are no Japanese court precedents that grant an injunction to restrain proceedings started overseas in breach of an arbitration agreement. Even if the courts find their jurisdiction and grant such an injunction under the Civil Provisional Remedies Law (*Law No. 91 of 1989*), the enforcement of such an injunctive order in a foreign country is often problematic and timely enforcement is unlikely to be realised.

ARBITRATORS

Number and qualifications/characteristics

15. Are there any legal requirements relating to the number, qualifications and characteristics of arbitrators? Must an arbitrator be a national of, or licensed to practice in your jurisdiction to serve as an arbitrator there?

The parties are free to agree on the number of and the procedure for appointing arbitrators (*Article 16(1), 17(1), Arbitration Law*). In the absence of such agreement, the rules concerning the appointment of arbitrators under the Arbitration Law apply. The default rule is that there must be three arbitrators appointed when there are two parties (*Article 16(2), Arbitration Law*). In multi-party arbitrations, the court must determine the number of arbitrators.

Under the Arbitration Law, there are no nationality, citizenship, residency or professional requirements for arbitrators, unless otherwise agreed by the parties. An individual does not need to be qualified to practice law in order to act as an arbitrator in Japan. For example, law professors and architects are permitted to act, and have frequently acted, as arbitrators in Japan.

Independence/impartiality

16. Are there any requirements relating to arbitrators' independence and/or impartiality?

The Arbitration Law imposes an obligation on the arbitrator candidate or the arbitrator to disclose all facts that could give rise to doubts as to their impartiality and independence (*Article 18(3)*). This disclosure obligation continues while the arbitral proceedings are pending (*Article 18(4)*). Arbitrators can be challenged where circumstances exist that give rise to justifiable doubts as to the arbitrator's impartiality or independence (*Article 18(1)*).

In a recent case, the Japanese Supreme Court rendered a decision on the setting aside of an arbitral award concerning an arbitrator's duty to disclose under Article 18(4) of the Arbitration Law. The Supreme Court overturned the High Court's decision to set aside the arbitral award and remanded the case to the High Court for further consideration, by reasoning that for the award to be set aside on the grounds of arbitrator's breach of the duty to disclose, the arbitrator must have been aware of the conflict during the course of the arbitral proceedings or would have been able to discover the conflict during the course of the arbitral proceedings by conducting a reasonable investigation.

Subsequently, the High Court found that there was no violation of the arbitrator's duty to disclose as neither of these two grounds was satisfied, and dismissed the application to set aside the award.

Appointment/removal

17. Does the law contain default provisions relating to the appointment and/or removal of arbitrators?

Appointment of arbitrators

The parties are free to agree on the procedure for appointing arbitrators (*Articles 16(1) and 17(1), Arbitration Law*). However, in the absence of agreement on the procedure for appointing arbitrators, the Arbitration Law provides default rules on appointment (*see also Question 15*).

When there are two parties and three arbitrators are to be appointed, each party must appoint one arbitrator and those arbitrators must then appoint the third arbitrator.

If a party fails to appoint an arbitrator within 30 days of receiving a request to do so from the other party that has appointed an arbitrator, the court must appoint the arbitrator at the request of that party.

If the party-appointed arbitrators fail to appoint a third arbitrator within 30 days of their appointment, the court must appoint the third arbitrator at the request of a party (*Article 17(2), Arbitration Law*).

When there are two parties and a sole arbitrator is to be appointed but the parties are unable to agree on the arbitrator, the court must appoint an arbitrator at the request of a party (*Article 17(3), Arbitration Law*).

In multi-party arbitrations (three or more parties), the court must appoint arbitrators at the request of a party (*Article 17(4), Arbitration Law*).

In addition, even if the parties have agreed on the procedure for appointing arbitrators, where an appointment cannot be made for any reason (*Article 17(5), Arbitration Law*), a party can request that the court appoint an arbitrator or arbitrators.

Removal of arbitrators

Under the Arbitration Law, if an arbitrator becomes legally or practically unable to perform his or her duties, or for other reasons causes undue delay in performing those duties, a party can apply to the court for the removal of such arbitrator. If the court finds these grounds established in relation to the arbitrator, it must dismiss the arbitrator (*Article 20, Arbitration Law*).

PROCEDURE

Commencement of arbitral proceedings

18. Does the law provide default rules governing the commencement of arbitral proceedings?

Unless otherwise agreed by the parties, an arbitration in respect of a particular civil dispute commences on the date on which one party gives the other party notice to refer that dispute to the arbitral proceedings (*Article 29(1), Arbitration Law*).

Applicable rules and powers

19. What procedural rules are arbitrators bound by? Can the parties determine the procedural rules that apply? Does the law provide any default rules governing procedure?

Applicable procedural rules

The rules of an arbitration procedure to be observed by the arbitral tribunal must be as specified by the agreement of the parties, provided, however, that those rules do not violate the provisions of

the Arbitration Law concerning public policy. For example, the Arbitration Law requires the parties to be treated equally and be given a full opportunity to present their cases in an arbitration (*Article 25, Arbitration Law*).

In practice, where parties use an arbitration organisation, they usually agree on the arbitration rules of the organisation as the applicable procedural rules. It is also a common practice for the IBA Rules on the Taking of Evidence in International Arbitration to be used as guidelines.

Default rules

The arbitral tribunal can conduct the arbitral proceedings in any manner it finds appropriate in the following cases:

- Where the parties have not reached an agreement on the rules.
- For procedural matters for which the Arbitration Law does not provide any default rules.

The arbitral tribunal must follow the default rules in procedural matters for which the Arbitration Law provides default rules (*Article 26(2), Arbitration Law*).

In addition, where the parties have not agreed on the rules of arbitration, the tribunal can determine the admissibility of evidence, necessity of examination of evidence and weight of evidence (*Article 26(3), Arbitration Law*).

Other default rules provided by the Arbitration Law are:

- Where the parties have not agreed to the language to be used, the tribunal can determine the language and the procedure to be conducted by such language (*Article 30 (2), Arbitration Law*).
- An arbitral tribunal can hold oral hearings to allow the parties to produce evidence or state their cases. If one party requests oral hearings, the tribunal must hold such hearings at an appropriate stage (*Article 32(1), Arbitration Law*) unless otherwise agreed by the parties (*Article 32 (2), Arbitration Law*).

Evidence and disclosure

20. If there is no express agreement, can the arbitrator order disclosure of documents and attendance of witnesses (factual or expert)?

Because an arbitral tribunal can conduct the arbitral proceedings in such manner as it finds appropriate (*Article 26(2), Arbitration Law*), it is understood that an arbitral tribunal has the power to order a party to produce documents even if there is no express agreement.

However, a tribunal cannot compel a non-party to appear at the hearing to give evidence or to produce evidence such as documents for use in the arbitration. If necessary, an arbitral tribunal or a party (with approval by the arbitral tribunal) can request the court to examine the evidence under the Code of Civil Procedure (including obtaining document production orders from the court), unless the parties have agreed not to request that the court do so (*Article 35(1), Arbitration Law*). A party who wishes to make such a request to the court needs the tribunal's permission to do so (*Article 35(2), Arbitration Law*).

EVIDENCE

21. What documents must the parties disclose to the other parties and/or the arbitrator? How, in practice, does the scope of disclosure in arbitrations compare with disclosure in domestic court litigation? Can the parties set the rules on disclosure by agreement?

Scope of disclosure

The Arbitration Law does not provide default rules on the extent to which parties are required to disclose documents. In practice, it is common for parties to disclose documents pursuant to the parties' agreement or a procedural order by the tribunal. The International Bar Association's Rules on the Taking of Evidence in International Arbitration are commonly used as guidelines. Where there is a dispute regarding the scope of document disclosure between the parties, it will be determined by the arbitral tribunal. As Japan is a civil law jurisdiction and has no broad document discovery proceedings in civil litigation, the scope of disclosure in an arbitration may be broader than that in litigation at a domestic court.

Validity of parties' agreement as to rules of disclosure

Parties can agree on the rules of disclosure. Such an agreement is valid unless it violates the provisions of the Arbitration Law concerning public policy (*Article 26(1)*).

CONFIDENTIALITY

22. Is arbitration confidential? If so, what is the scope of that confidentiality and who is subject to the obligation (parties, arbitrators, institutions and so on)?

The Arbitration Law has no provision concerning confidentiality or transparency of an arbitration. This means that an arbitration is not required to be open to the public, and, in practice, there is a widely-accepted notion that an arbitration should be treated as confidential unless otherwise agreed by the parties. Where the institutional rules chosen by the parties provide confidentiality obligations, the parties and arbitrators are bound by them. The parties can also separately agree on confidentiality.

COURTS AND ARBITRATION

23. Will the local courts intervene to assist arbitration proceedings seated in their jurisdiction?

A local court can intervene only in the circumstances specified in the Arbitration Act. For provisional remedies, see *Question 25*.

The court can exercise its authority with respect to an arbitration only in the circumstances specified in the Arbitration Law (*Article 4*).

The court can assist a party with respect to written notice (*Article 12*), appointment of an arbitrator (*Article 17*), challenging an arbitrator (*Article 19*), dismissal of an arbitrator (*Article 20*), challenging the jurisdiction of an arbitral tribunal (*Article 23(5)*), examination of evidence by a court (*Article 35*) and setting aside an arbitral award (*Article 44*).

Court proceedings with respect to an arbitration under the Arbitration Law are subject to the exclusive jurisdiction of the:

- District court designated by the parties to the arbitration.
- District court that has jurisdiction over the seat of the arbitration.

- District that has jurisdiction over the general venue applicable to the respondent of the arbitration (for a corporate respondent, the venue is usually determined by the location of its principal office).

(Article 5, Arbitration Law.)

24. What is the risk of a local court intervening to frustrate an arbitration seated in its jurisdiction? Can a party delay proceedings by frequent court applications?

Risk of court intervention

The Arbitration Law is based on the UNCITRAL Model Law (1985) with the aim of being consistent with modern arbitration practices. In addition, it is the policy of Japanese legislators to promote arbitration, to allow Japan to become one of the world's major arbitration centres. The Japanese court generally respects and follows the pro-arbitration attitude of the legislators and the Arbitration Law.

Delaying proceedings

The Arbitration Law intends to prevent a party from making frequent court applications to delay an arbitration by restricting a court's authority to intervene in an arbitration to the limited cases explicitly provided by the Act.

Where a court has the authority to intervene in an arbitration, the Arbitration Law does not require the tribunal to stay proceedings pending the court's decision. For example, regarding challenging an arbitrator, the Act provides that an arbitral tribunal can, even while the proceedings based on such challenge are pending at the court, commence or continue the arbitral proceedings and render an arbitral award (Article 19(5), Arbitration Law).

Similarly, when an arbitral tribunal, in its independent decision before rendering an arbitral award, has ruled that it has jurisdiction over a case, a party can request that a court, within thirty days of receipt of notice of said decision, rules on whether the tribunal has jurisdiction. However, even where the request is pending before the court, the tribunal can continue the arbitration procedure and render an arbitral award (Article 23(5), Arbitration Law).

Further, to expedite court proceedings, a decision by a court under the provisions of the Arbitration Law can be made without oral hearings (Article 6). The normal appeal against the court's decision is not allowed, and only in the limited cases provided by law is the special appeal against the court's decision allowed (Article 7, Arbitration Law). The special appeal must be filed within two weeks from receipt of the court's decision (Article 7, Arbitration Law).

INSOLVENCY

25. What is the effect on the arbitration of pending insolvency of one or more of the parties to the arbitration?

The Bankruptcy Act provides that, when an order of commencement of bankruptcy proceedings is made, any legal proceedings (*Soshotetsuzuki*) relating to the bankruptcy estate in which the bankrupt stands as a party must be discontinued (Article 44(1), Bankruptcy Act).

Other insolvency laws, such as the Civil Rehabilitation Act, have similar provisions.

However, the original Japanese word used in such articles, *Soshotetsuzuki*, usually means court proceedings and therefore there is a debate regarding whether such articles apply to arbitrations as well. In this respect, as a creditor who commences an arbitration cannot receive the distribution of the assets unless it

participates in the bankruptcy proceedings commenced against the other party to the arbitration, in practice such creditor usually files a proof of bankruptcy claim with the court and the claim is assessed by the court.

Where the creditor intends to dispute the assessment of the court, there is also a discussion whether such dispute should be resolved through litigation at the court administering the bankruptcy proceedings or by arbitration.

REMEDIES

26. What interim remedies are available from the tribunal?

Interim remedies

Unless otherwise agreed by the parties, an arbitral tribunal can order any party to take any interim measures or preservative measures that the arbitral tribunal considers necessary in respect of the subject matter of the dispute (Article 24(1), Arbitration Law). The Arbitration Law does not restrict the types of interim remedies that are available from the tribunal, but an interim order made by an arbitral tribunal cannot be enforced by a Japanese court.

A party to an arbitration can file with the Japanese court a petition for a civil provisional remedy for the civil dispute referred to in the arbitration before or after the commencement of the arbitration, pursuant to the Civil Provisional Remedies Act. The court order is enforceable by the Japanese court.

Ex parte/without notice applications

The current Arbitration Law does not explicitly provide an arbitral tribunal with the power to grant interim relief on an ex parte basis. There is a debate as to whether an arbitral tribunal can grant interim relief on an ex parte basis under the current Arbitration Law.

Security

As the Arbitration Law does not restrict the types of interim remedies that are available from the tribunal, an arbitral tribunal can award security if it considers it necessary in respect of the subject-matter of the dispute.

27. What final remedies are available from the tribunal?

There are no express provisions limiting a tribunal's power to award final remedies under the Arbitration Law. Therefore, final remedies available from an arbitral tribunal can include damages, injunctions, specific performance, declarations, costs and interest, as long as the substantive law applicable to the subject-matter of an arbitration grants the party the right to claim such remedies.

However, a tribunal seated in Japan cannot award punitive damages (the Supreme Court of Japan has denied the enforceability of awards for punitive damages rendered by a state court of California, on the grounds that punitive damages are against public policy).

APPEALS

28. Can arbitration proceedings and awards be appealed or challenged in the local courts? What are the grounds and procedure? Can the parties waive any rights of appeal or challenge to an award by agreement before the dispute arises (such as in the arbitral clause itself)?

Rights of appeal/challenge

An arbitral award cannot be appealed to the court, but can be set aside by the court on certain grounds provided in the Arbitration Law. (*Articles 4 and 44, Arbitration Law.*)

Grounds and procedure

The grounds on which an award can be set aside under the Arbitration Law are as follows:

- The arbitration award is not valid:
 - due to the limited capacity of a party; and
 - on grounds other than the limited capacity of a party pursuant to the laws and regulations designated by the agreement of the parties as those which should be applied to the arbitration agreement (if such designation has not been made, under Japanese laws and regulations).
- The applicant:
 - did not receive the notice required under Japanese laws and regulations or under an agreement by the parties in the procedure of appointing arbitrators or in the arbitration procedure; and
 - was unable to present a defence in the arbitration procedure.
- The arbitral award contains a decision on matters beyond the scope of the arbitration agreement or of the claim presented in the arbitration procedure.
- The composition of the arbitral tribunal or the arbitration procedure is in violation of Japanese laws and regulations (or under an agreement by the parties).
- The application filed in the arbitration procedure is concerned with a dispute which cannot be subject to an arbitration agreement under Japanese laws and regulations.
- The content of the arbitral award is against public policy in Japan.

Article 44(1) of the Arbitration Law has narrowed and clarified the grounds for setting aside an arbitral award by adopting almost the same grounds for setting aside or refusing to enforce an arbitral award as those provided under Article 34 of the UNCITRAL Model Law or Article 5 of the New York Convention (for example, the content of the arbitral award is against public policy in Japan).

A party who wants to challenge an arbitral award must file an application for setting aside the arbitral award with the competent district court within three months from receipt of the award.

A party is not allowed to file an application for setting aside if an execution order (*see Question 32*) has become final and binding. The Arbitration Law adopts a simpler and more efficient setting aside procedure than that available in civil litigation. The court decision can be made without an oral hearing in open court, although the court must hold a closed hearing attended by the parties.

Waiving rights of appeal

The Arbitration Law has no specific article that refers to the waiver of rights to challenge an award. It is generally considered that the grounds to set aside arbitral awards under the Arbitration Law are

so fundamental that the parties cannot waive the right to set aside an arbitral award on those grounds.

29. What is the limitation period applicable to actions to vacate or challenge an international arbitration award rendered inside your jurisdiction?

The application to set aside an arbitral award rendered in Japan cannot be made when:

- More than three months have elapsed from the date of receipt of a written arbitral award.
- An execution order (*see Question 32*) has become final and binding (*Article 44(2), Arbitration Law.*)

For an arbitral award rendered outside Japan, the Arbitration Law does not provide any procedure to set aside, vacate, or challenge such award before the Japanese courts.

COSTS

30. What legal fee structures can be used? Are fees fixed by law?

Legal fees are not fixed by the law or by regulations. Parties to an arbitration can use hourly rates or any other fee structures. Contingency fees are generally legal. A party and its lawyer can agree on any fee structures, although the Japan Federation of Bar Associations' code of conduct requires that fees are fair and proper.

There is no statute law that specifically deals with third party funding for litigation or arbitration.

31. Does the unsuccessful party have to pay the successful party's costs? How does the tribunal usually calculate any costs award and what factors does it consider?

Cost allocation

The costs of arbitration must be apportioned between the parties in accordance with the parties' agreement (*Article 49(1), Arbitration Law*) (which includes apportioning costs in accordance with the institutional rules that the parties agreed to be bound by).

In the absence of the parties' agreement, the default rule is that each party must bear its own costs for the arbitral proceedings (*Article 49(2)*).

If the parties agree or if the institutional rules provide that the arbitral tribunal has the power to order the unsuccessful party to bear costs, the Arbitration Law allows the tribunal to do so in its award or in an independent ruling (*Article 49(3), Arbitration Law*).

Cost calculation

The Arbitration Law does not provide specific methods that the tribunal must follow to calculate costs'. In the authors' experience, tribunals usually require the parties to make submissions on costs.

Factors considered

The Arbitration Law does not provide the factors which tribunals must follow in considering costs; however, in the authors' experience, tribunals usually adopt the "costs follows the event" rule that is, the losing party pays the costs of the winning party.

ENFORCEMENT OF AN AWARD

Domestic awards

32. To what extent is an arbitration award made in your jurisdiction enforceable in the local courts?

The Arbitration Law provides that an arbitral award (irrespective of whether or not the seat of arbitration is in Japan) has the same effect as a final and binding judgment; if a civil execution based on the award requires an execution order (*Article 45(1)*). A party can file an application with the court for an execution order along with a:

- Copy of the arbitral award.
- Document certifying the copy of the award.
- Japanese translation of the award, if the award is not in Japanese (*Article 46(1) and (2), Arbitration Law*).

The competent courts for this procedure are the district court having jurisdiction over the place of the arbitration, the domicile of the counterparty and the location of the object of the claim or sizeable assets (*Article 46(4), Arbitration Law*).

Enforcement procedures vary depending on the types of target assets but the typical procedure would be as follows:

- A party obtains an execution order from the competent court.
- The party files an application for enforcement with a competent court or enforcement officer (jurisdiction also varies depending upon the types of target assets and procedures).
- The target asset is seized by the court or enforcement officer, or the court issues an order of seizure which is to be served upon the garnishee. Depending on the types of target assets, valuation, sale, compulsory administration of target assets or other collection procedures will follow the seizure.

Foreign awards

33. Is your jurisdiction party to international treaties relating to recognition and enforcement of foreign arbitration awards, such as the Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 (New York Convention)?

Japan has acceded to the New York Convention, with the reservation that it applies only to recognition and enforcement of an award made in the territory of another contracting state. However, the Arbitration Law does not distinguish awards rendered in contracting states of the New York Convention and in non-contracting states. An award rendered in non-contracting states of that Convention can be enforced in Japan if it meets the requirements of the Arbitration Law, which are almost the same as those in the New York Convention and the Model Law. Therefore, the reservation on the New York Convention has lost meaningful effect when it comes to its recognition and enforcement by Japanese courts under the Arbitration Law.

34. To what extent is a foreign arbitration award enforceable?

There is no difference between the rules for enforcement of domestic awards and foreign awards. As is the case with domestic awards, a foreign arbitral award can be enforced except where an exception under Article 45(2) of the Arbitration Law relates to the award (for example, if the content of the award is against public

policy), by making an application to the court for an execution order following the process set out in *Question 32*.

A UK or US award is enforceable in Japan.

35. What is the limitation period applicable to actions to enforce international arbitration awards rendered outside your jurisdiction?

The procedure for an execution order applicable to an international arbitral award rendered outside Japan is provided by the Arbitration Law (see *Question 32 and Question 35*), but no limitation period is set.

Length of enforcement proceedings

36. How long do enforcement proceedings in the local court take, from the date of filing the application to the date when the first instance court makes its final order? Is there an expedited procedure?

Enforcement proceedings typically take about one to three months in the first instance, although it may take longer depending on circumstances. In particular, where a foreign respondent who has assets in Japan does not have any business office or representative in Japan, the formal international service of process will take considerable time.

REFORM

37. Are any changes to the law currently under consideration or being proposed?

Foreign Lawyers Act. The Act on Special Measures concerning the Handling of Legal Services by Foreign Lawyers (Foreign Lawyers Act) was amended on 22 May 2020.

Article 72 of the Attorney Act generally prohibits a person who is not qualified as a Japanese lawyer from handling, for the purpose of gaining fees, legal business, including arbitration. The Foreign Lawyers Act provides significant exceptions to this general rule and specifically allows both:

- A registered foreign lawyer in Japan to represent a party in an international arbitration case (*Article 5-3*).
- A non-registered foreign lawyer who is engaged in providing legal services in a foreign state (excluding a person who is employed and is providing services in Japan, based on their knowledge of foreign law) to represent a party in an international arbitration case which he/she undertakes in a foreign state (*Article 58-2*).

The 2020 amendment of the Foreign Lawyers Act broadens the definition of "international arbitration case", which is now defined as a civil arbitration case in which any of the following applies:

- A party to the case has a specific connection to a foreign jurisdiction (for example, a person holding a majority of the issued shares of a party to the case has a head office in a foreign jurisdiction) (*Article 2(xi)(a)*).
- The governing law agreed on by the parties is a law other than Japanese law (*Article 2(xi)(b)*).
- The seat of arbitration is in a foreign country (*Article 2(xi)(c)*).

Under this amendment, registered foreign lawyers and non-registered foreign lawyers can represent parties in civil arbitration cases that meet any of the above requirement(s) of. This amendment came into force on 29 August 2020.

Arbitration Law. A minor amendment to Article 29(2) of the Arbitration Law came into force at the same time the revisions to the Civil Code become effective, on 1 April 2020. The purpose of the amendment is to ensure consistency in the wording between the revised Civil Code and the Arbitration Law. Under the amended

Article 29(2), as under the old Article 29(2), a claim made in an arbitration interrupts the prescription period, except where the arbitral proceedings are terminated without rendering an arbitral award.

Practical Law Contributor profiles

Yutaro Kawabata, Partner

Nishimura & Asahi

T +81 362 506 200

F +81 362 507 200

E y.kawabata@nishimura.com

W www.jurists.co.jp/en

Azusa Saito, Counsel

Nishimura & Asahi

T +1 212 830 1600

F +1 212 319 6454

E a.saito@nishimura.com

W www.jurists.co.jp/en

Professional qualifications. Japan, 2004

Areas of practice. International arbitration.

Languages. Japanese, English

Professional associations/memberships. Dai-ichi Tokyo Bar Association, Japan Association of Arbitrators (Co-Chair, International Arbitration & Mediation Committee).

Publications. *Law and Practice of International Commercial Arbitration, Maruzen-Yushodo, 2016.*

Professional qualifications. Attorney-at-law, Japan and New York

Areas of practice. Litigation; arbitration.

Languages. Japanese, English

Professional associations/memberships. Dai-ichi Tokyo Bar Association, International Bar Association, Japan Association of Arbitrators.

Publications.

- *International Arbitration and Corporate Strategy, Yuhikaku (2014).*
- *Practical Guide of Entrustment, Seirin-Shoin (2010).*

Motonori Ezaki, Associate

Nishimura & Asahi

T +81 362 506 200

F +81 362 507 200

E m.ezaki@nishimura.com

W www.jurists.co.jp/en

Professional qualifications. Attorney-at-law, Japan

Areas of practice. Litigation; arbitration; insurance.

Languages. Japanese, English

Professional associations/memberships. Dai-ni Tokyo Bar Association, International Bar Association, Japan Association of Arbitrators.

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