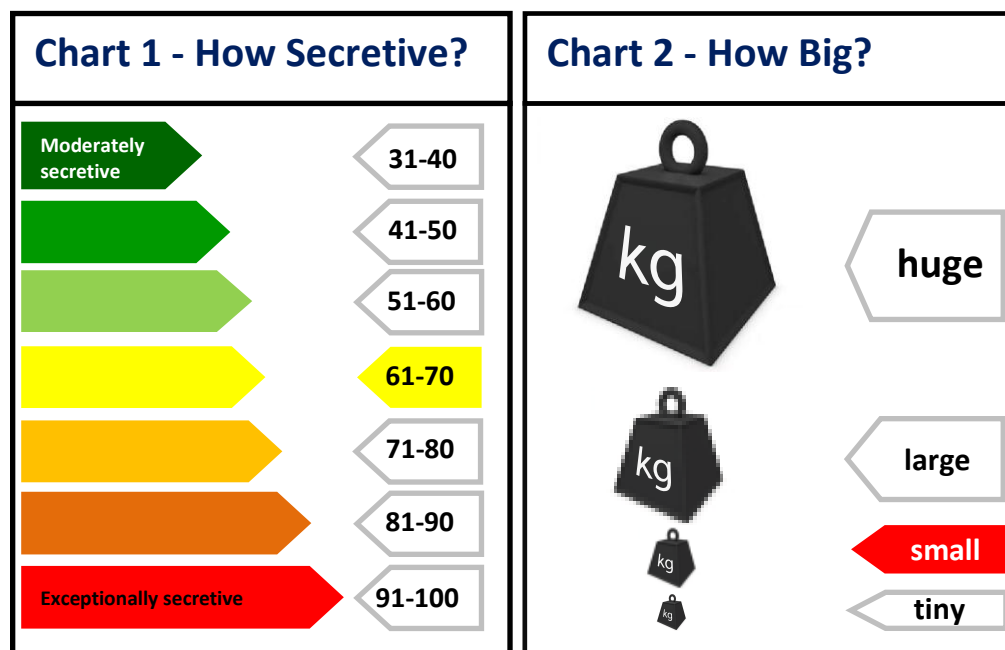


## Report on Japan

Japan is ranked at eighth position on the 2011 Financial Secrecy Index. This ranking is based on a combination of its secrecy score and a scale weighting based on its share of the global market for offshore financial services.

Japan has been assessed with 64 secrecy points out of a potential 100, which places it in the mid range of the secrecy scale (see chart 1 below).

Japan accounts for slightly under 2 per cent of the global market for offshore financial services, making it a small player compared with other secrecy jurisdictions (see chart 2 below).



### Part 1: Telling the story

Japan, like Germany, is not widely regarded as a secrecy jurisdiction – but our decision finally to include it in this year’s index is vindicated. With a relatively high secrecy score of 64, and a huge offshore market - it has slightly under 2% of the global market share in offshore financial services - Japan is a major player in the secrecy world.

Japan’s Big Bang in terms of offshore finance happened with the setting up of the so-called [Japan Offshore Market](#) in 1986. Essentially, this was an effort to attract foreign financial business by exempting it from tax and a range of financial regulations, and it was modelled on a similar U.S. facility set up by the United States two years earlier (and it was also a reaction to the rapid growth of the offshore Euromarkets generally, pioneered by the City of

London since the 1950s.) This was followed by similar tax exemptions for Japanese government bonds in 1999, and for municipal bonds in 2007. The scope of the tax exemption was [widened in 2010](#) to include corporate bonds.

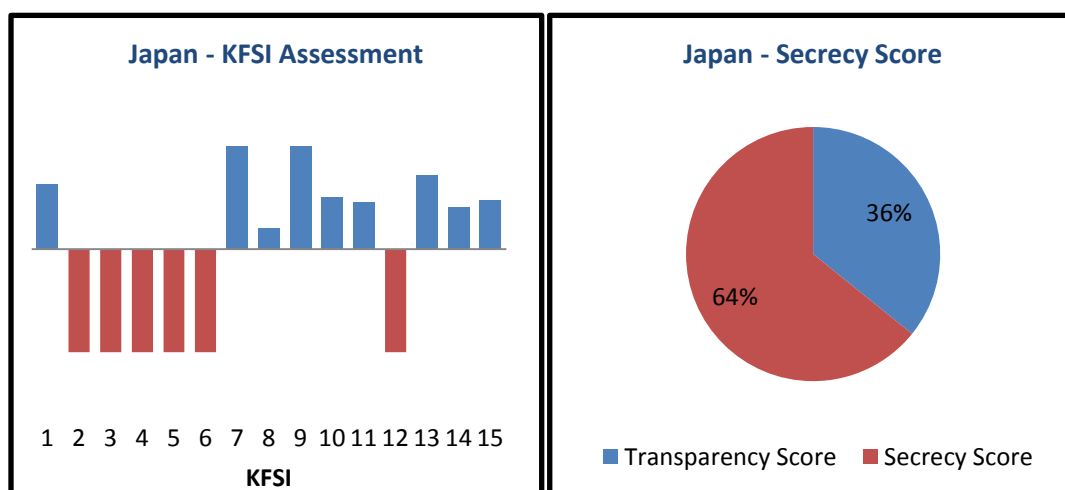
Japan's weak provisions on transparency and information exchange, combined with its tax-free treatment of various forms of foreign investment (and exemption from financial regulations) has made it a major destination for illicit financial flows. The country's relatively poor record of co-operation with foreign governments on money-laundering adds to our concerns about this little-noticed secrecy jurisdiction.

### Next steps for Japan

Japan's 64 per cent secrecy score shows that it must still make major progress in offering satisfactory financial transparency<sup>1</sup>. If it wishes to play a full part in the modern financial community and to impede and deter illicit financial flows, including flows originating from tax evasion, aggressive tax avoidance practices, corrupt practices and criminal activities, it should take action on the points noted where it falls short of acceptable international standards. See part 2 below for details of Japan's shortcomings on transparency. See this link <http://www.secrecyjurisdictions.com/kfsi> for an overview of how each of these shortcomings can be fixed.

## Part 2: Secrecy Scores

The secrecy score of 64 per cent for Japan has been computed by assessing the jurisdiction's performance on the 15 Key Financial Secrecy Indicators, listed below.



The numbers on the horizontal axis of the bar chart on the left refer to the Key Financial Secrecy Indicators (KFSI). The presence of a **blue** bar indicates a positive answer, as does **blue** text in the KFSI list below. The presence of a **red** bar indicates a negative answer as does **red** text in the KFSI list. Where the jurisdiction's performance partly, but not fully

complies with a Key Financial Secrecy Indicator, the text is coloured violet in the list below (combination of red and blue).

This paper draws on key data collected on Japan. Our data sources include regulatory reports, legislation, regulation and news available at 31.12.2010<sup>2</sup>. The full data set is available [here](#)<sup>3</sup>. Our assessment is based on the 15 Key Financial Secrecy Indicators (KFSIs, below), reflecting the legal and financial arrangements of Japan. Details of these indicators are noted in the following table and all background data can be found on the [Mapping Financial Secrecy web site](#)<sup>4</sup>. This data is the basis on which the [Financial Secrecy Index](#)<sup>5</sup> is compiled.

**The Key Financial Secrecy Indicators and the performance of Japan are:**

<b>TRANSPARENCY OF BENEFICIAL OWNERSHIP – Japan</b>	
1.	Banking secrecy: Does the jurisdiction have banking secrecy?  <b>Japan does not adequately curtail banking secrecy</b>
2.	Trust and Foundations Register: Is there a public register of Trusts and Foundations?  <b>Japan does not put details of trusts on public record</b>
3.	Recorded Company Ownership: Does the relevant authority obtain and keep updated details of the beneficial ownership of companies?  <b>Japan does not maintain company ownership details in official records</b>
<b>KEY ASPECTS OF CORPORATE TRANSPARENCY REGULATION – Japan</b>	
4.	Public Company Ownership: Does the relevant authority make details of ownership of companies available on public record online for less than US\$10?  <b>Japan does not require that ownership of companies is put on public record</b>
5.	Public Company Accounts: Does the relevant authority require that company accounts are made available for inspection by anyone for a fee of less than US\$10?  <b>Japan does not require that company accounts be available on public record</b>
6.	Country-by-Country Reporting: Are companies listed on a national stock exchange required to comply with country-by-country financial reporting?  <b>Japan does not require country-by-country financial reporting by companies</b>
<b>EFFICIENCY OF TAX AND FINANCIAL REGULATION – Japan</b>	

7.	<p>Fit for Information Exchange: Are resident paying agents required to report to the domestic tax administration information on payments to non-residents?</p> <p><b>Japan requires resident paying agents to tell the domestic tax authorities about payments to non-residents</b></p>
8.	<p>Efficiency of Tax Administration: Does the tax administration use taxpayer identifiers for analysing information effectively, and is there a large taxpayer unit?</p> <p><b>Japan partly uses appropriate tools for effectively analysing tax related information</b></p>
9.	<p>Avoids Promoting Tax Evasion: Does the jurisdiction grant unilateral tax credits for foreign tax payments?</p> <p><b>Japan avoids promoting tax evasion via a tax credit system</b></p>
10.	<p>Harmful Legal Vehicles: Does the jurisdiction allow cell companies and trusts with flee clauses?</p> <p><b>Japan partly allows harmful legal vehicles</b></p>
<b>INTERNATIONAL STANDARDS AND COOPERATION – Japan</b>	
11.	<p>Anti-Money Laundering: Does the jurisdiction comply with the FATF recommendations?</p> <p><b>Japan partly complies with international anti-money laundering standards</b></p>
12.	<p>Automatic Information Exchange: Does the jurisdiction participate fully in Automatic Information Exchange such as the European Savings Tax Directive?</p> <p><b>Japan does not participate fully in Automatic Information Exchange</b></p>
13.	<p>Bilateral Treaties: Does the jurisdiction have at least 60 bilateral treaties providing for broad information exchange, covering all tax matters, or is it part of the European Council/OECD convention?</p> <p><b>As of June 30, 2010, Japan had few tax information sharing agreements complying with basic OECD requirements</b></p>
14.	<p>International Transparency Commitments: Has the jurisdiction ratified the five most relevant international treaties relating to financial transparency?</p> <p><b>Japan has partly ratified relevant international treaties relating to financial transparency</b></p>
15.	<p>International Judicial Cooperation: Does the jurisdiction cooperate with other states on money laundering and other criminal issues?</p>

	Japan partly cooperates with other states on money laundering and other criminal issues
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<sup>1</sup> Our definition of financial transparency can be found here:

<http://www.secrecyjurisdictions.com/PDF/FinancialTransparency.pdf>.

<sup>2</sup> With the exception of KFSI 13 for which the cut-off date is 30.6.2010. For more details, look at the endnote number 2 in the corresponding KFSI-paper here:

<http://www.secrecyjurisdictions.com/PDF/13-Bilateral-Treaties.pdf>.

<sup>3</sup> That data is available here: [http://www.secrecyjurisdictions.com/sj\\_database/menu.xml](http://www.secrecyjurisdictions.com/sj_database/menu.xml).

<sup>4</sup> <http://www.secrecyjurisdictions.com>.

<sup>5</sup> <http://www.financialsecrecyindex.com/>.