

FinTech Market in Japan: Blockchain

a. Crypto Assets

In the Japanese FinTech market, the interest in blockchain technology has been increasing with the recent development of legal systems. This report takes a look at blockchain, focusing on the market size and the latest trends of : a. Crypto Assets; and b. Market for Blockchain Application Services.

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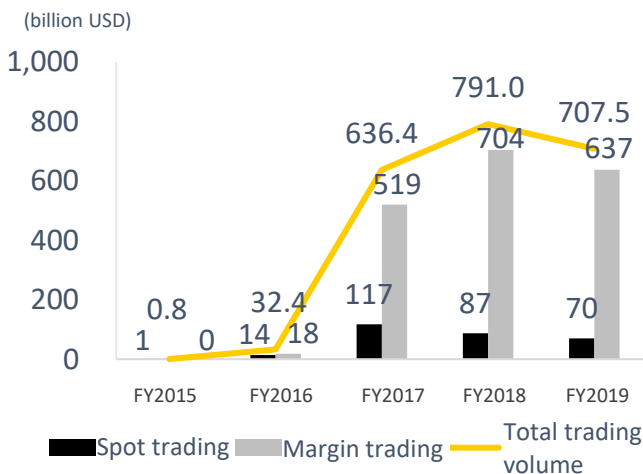
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a. Crypto Assets

a-1. Market Size and Growth Potential

The trading volume of crypto assets in Japan has seen a rapid increase since the assets were stipulated in Japanese law in 2017, reaching 707 billion USD (76.9 trillion JPY) in FY2019.¹

Trends in crypto asset trading volume¹

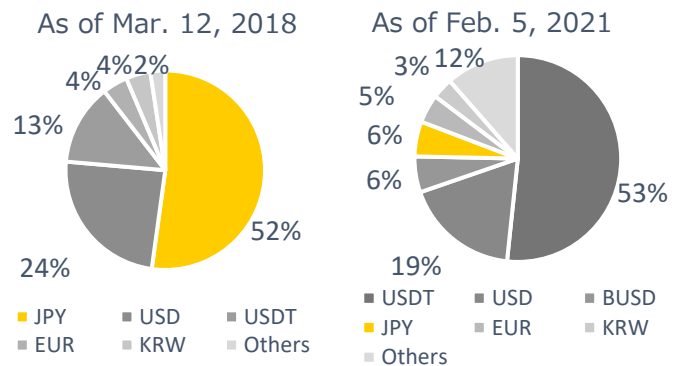


※ Converted as 1 USD = 108.65 JPY as of Dec. 31, 2019

Source:
 1. Japan Virtual and Crypto Assets Exchange Association, *Annual Report on Crypto Asset Trading (FY2019)*
 2. CryptoCompare, *Bitcoin (BTC)*
 3. Japan Virtual and Crypto Assets Exchange Association, *Table of Crypto Asset Trading by Members (Monthly)*, Mar. 10, 2021

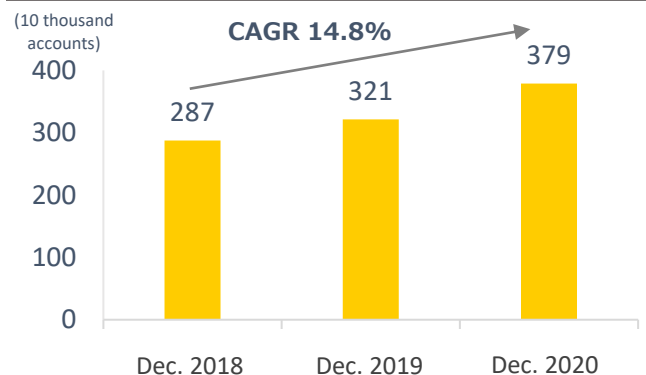
Regarding the market size of Bitcoin, a representative crypto asset, the volume of Bitcoin reserved in Japanese yen currently accounts for approx. six percent of the world's total; and as of March 2018, it was the largest in the world with approx. 52 percent. This indicates that Japan has high interest in crypto assets compared to the rest of the world.²

Bitcoin Volume by currency²



The number of crypto asset accounts increased from 2.87 million to 3.79 million over the two-year period from the end of 2018 to the end of 2020 with Compound Annual Growth Rate (CAGR) of 14.8 percent.³ Crypto assets are expected to gain more popularity in years to come, increasing the number of users and expanding the market.

Number of crypto asset accounts³



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a. Crypto Assets

a-2. New Developments by Sector

In recent years, there has been an increase in the number of crypto asset exchanges and sales offices that enable users to easily trade crypto assets using the Internet or smartphone apps for low fee. These services are particularly popular among young people in their 20s.

For example, at the bitFlyer exchange, which has ranked the first in Japan for five consecutive years* in terms of bitcoin trading volume, including physical/net settlements and futures transactions, approx. 40 percent of users who opened new bitcoin accounts in Japan between January and June 2020 were those in their 20s, which is the largest segment of users by generation.¹

Trading services and the types of assets available are also diversifying. Coincheck, a subsidiary company of Monex Group, Inc., handles 15 types of virtual currencies, the largest number in Japan, on its crypto asset exchange. Coincheck also provides optional services for long-term investment such as automatic savings and lending.



(<https://bitflyer.com/ja-jp/>)



(<https://coincheck.com/ja>)

* Annual trading volume of domestic crypto asset service providers (including net settlement and futures transactions) from 2016-2020 according to the Bitcoin's Japanese information website.

Source:

1. The Nikkei, *Growing speculative fever among individual investors who will buy anything that will go up*, Mar. 10, 2021
2. Monthly Periodical Capital Market, *Act for Partial Revision of the Payment Services Act and the Act for Partial Revision of the Financial Instruments and Exchange Act in Relation to Crypto Assets*, Jul. 2019

a-3. Government Initiatives

Amendment to the Payment Services Act and the Financial Instruments and Exchange Act²

In Japan, the Act for Partial Revision of the Payment Services Act came into effect in April 2017 incorporating the regulations on “Virtual Currency Service Providers” for the first time into Japanese law.

Additionally, in response to growing illegal use of crypto assets, such as the massive outflow of crypto assets in January 2018, the Act for Partial Revision of the Payment Services Act and the Act for Partial Revision of the Financial Instruments and Exchange Act were enacted in May 2020. These amendment acts aim to improve the internal management system of Crypto Asset Service Providers, including the methods of displaying their advertisements and methods of managing users' money and crypto assets.

a-4. Successful Cases of Foreign Companies Entering Japan

Kraken

Kraken is a fintech company based in San Francisco, USA, which is the world's largest digital asset exchange in terms of euro-denominated trading volume and liquidity assets. It offers trading in 44 digital assets and seven legal currencies (EUR, USD, CAD, GBP, JPY, CHF, AUD) to over 4 million traders and institutional investors worldwide.

In 2018, Kraken established a Japanese subsidiary, Payward Asia K.K. In 2020, Payward Asia was registered as a Crypto Asset Service Provider by the Financial Services Agency in September and launched services for deposits, withdrawals and trading in Japanese yen in October. The company already offers spot trading services for five major assets: Bitcoin, Ethereum, Ripple, Bitcoin Cash and Litecoin.



(<https://www.kraken.com/ja-jp/>)

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b. Market for Blockchain Application Services

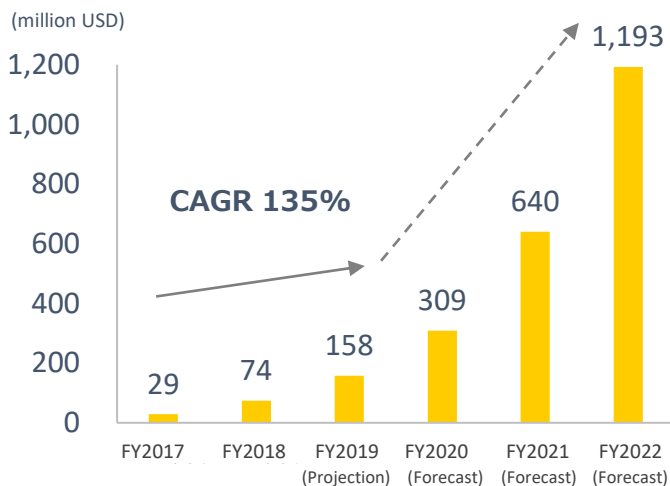
b. Market for Blockchain Application Services

b-1. Market Size and Growth Potential

In FY2019, the size of the market for blockchain application services (based on business revenue) in Japan was valued at 158 million USD (17.1 billion JPY), representing a CAGR of 135 percent over the two-year period from FY2017 to FY2019.

Various sandbox tests on the use of blockchain are currently underway across the financial industry. Driven by the progress of commercialization of blockchain, the market will see a rapid expansion and is projected to reach 1,193 million USD (123.5 billion JPY) by FY2022.

Trends in the size of the domestic market for blockchain application services¹



※ Converted as 1 USD = 108.65 JPY as of Dec. 31, 2019

Source:
1. Yano Research Institute. *A Study on Blockchain Application Service Market is Conducted (2019)*, May 22, 2019

b-2. New Developments by Sector

Banking (Settlement, Remittance)

In the banking sector, the development has been carried out to make settlement and remittance less costly and faster than conventional bank transfers by building crypto assets for settlement, which do not require third-party approval process. Mitsubishi UFJ Financial Group developed MUFG Coin (renamed to "coin" in 2018), a crypto asset for settlement and remittance using blockchain technology. The company set a goal to put it to practical use through a large-scale sandbox tests involving 100,000 people in 2019.



(<https://www.bk.mufg.jp/>)

Securities

In the securities sector, efforts are being made to streamline clearing and settlement and improve liquidity as well as convenience by using blockchain to tokenize securities such as stocks, bonds, and alternative assets. Nomura Holdings established Boostry, a group subsidiary, in September 2019 to develop and provide a system infrastructure for issuing and managing security tokens. In March 2020, the company became the first in Japan to underwrite and issue digital bonds.



(<https://boostry.co.jp/>)

FinTech Market in Japan: Blockchain

b. Market for Blockchain Application Services

b-3. Government Initiatives

Regulatory Sandbox System¹

The Japanese government introduced a regulatory sandbox system in 2018 to promote the practical application of innovative technologies and business models. This system aims to expedite deregulation for new technologies, etc. based on the results of sandbox tests.

Since January 2019, as the first application of this system in the field of crypto assets, a sandbox test on simultaneous payment service for yen-denominated tokens and virtual currencies has been conducted by Crypto Garage Co., Ltd., which operates a blockchain financial service business.

Amendments to laws related to the trading of security tokens and crypto assets²

Security tokens were broadly interpreted to fall under the category of crypto assets with no clear legal definition.

After the enactment of the revised Financial Instruments and Exchange Act in May 2020, they have been classified as financial instruments subject to this act. As a result, the obligation to disclose information to investors and the regulations on sales and solicitation imposed on securities (stocks, etc.) have become applicable to securities issued electronically using blockchain.

This has enabled investors and issuers to trade security tokens on a legal basis, creating ground to facilitate their trading. This is expected to help spread of digital securities.

Source:

1. Prime Minister's Office of Japan, *Regulatory Sandbox System*, viewed on Mar. 15, 2021

2. Monthly Periodical Capital Market, *Act for Partial Revision of the Payment Services Act and the Act for Partial Revision of the Financial Instruments and Exchange Act in Relation to Crypto Assets*, Jul. 2019

b-4. Successful Cases of Foreign Companies Entering Japan

Wirex Limited.

Wirex Limited is a FinTech company founded in London, UK in 2015. The company provides blockchain-based international personal finance services that enable users to hold crypto assets in web-based accounts, withdraw them from ATMs, and make payments at stores using debit cards. In 2017, the company established Wirex Japan Limited, a Japan-based subsidiary of Wirex Limited.

"Wirex Card" provided by Wirex Limited is available on the Visa network around the world, and thus allows crypto assets to be exchanged into US dollars, Euros, British pounds, etc., and used at Visa merchants and ATMs worldwide.

Wirex Japan is acquiring various licenses and building corporate partnerships, which are necessary to do business in Japan. In 2019, the company joined the Japan Virtual and Crypto assets Exchange Association (JVCEA) as a second-class member.



(<https://wirex.jp/#>)