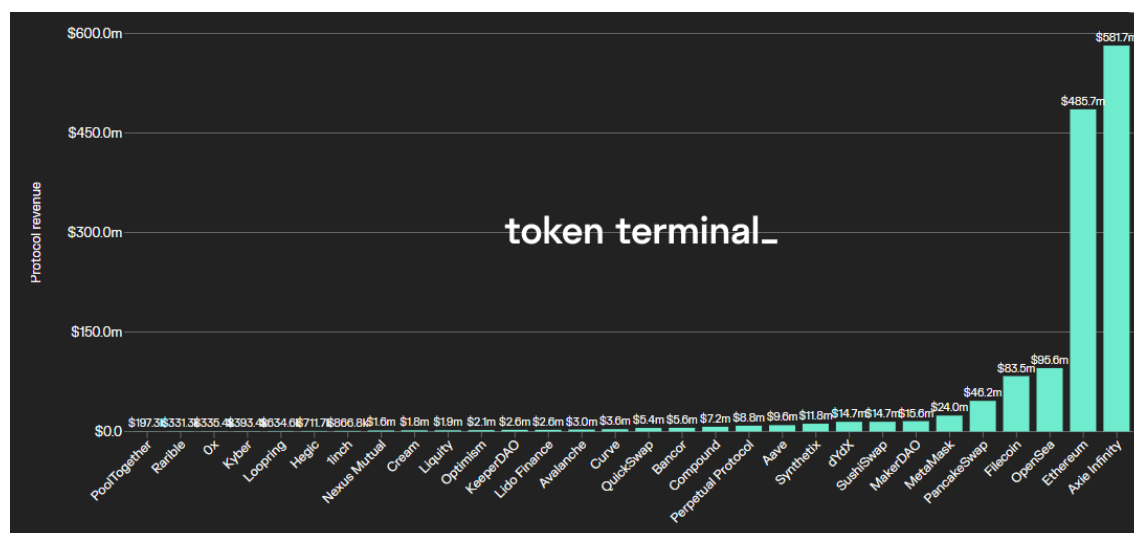


Play-to-Earn and legal implications from a Japanese perspective

A high-level overview of Axie Infinity

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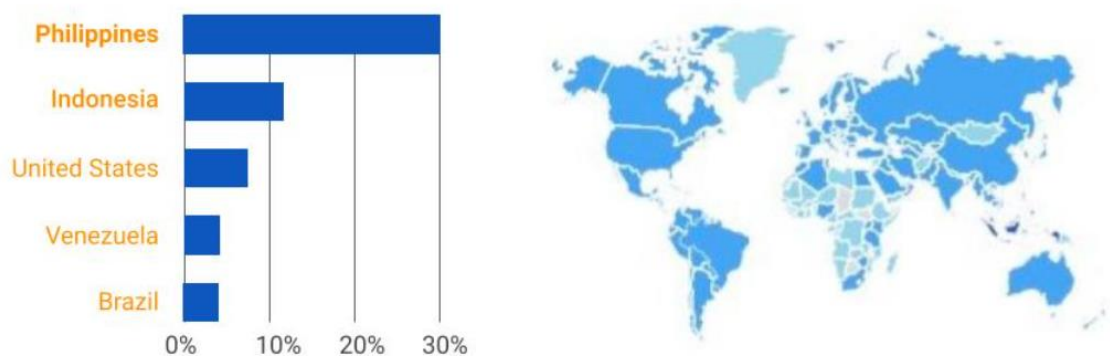
[Axie Infinity](#), the blockchain game by [Sky Mavis](#), made major headlines recently. With more than [350,000 daily active players](#), the game is one of the most successful blockchain games so far. According to data from [token terminal](#), the game generated [USD 581.7 million in revenue over the past 90 days](#). To put this into perspective, this is more than Ethereum over the same period of time.



[Graphic 1: Top dapps and blockchains based on cumulative protocol revenue in the past 90 days.](#)

So, what is behind the success of Axie Infinity?

Part of it can be attributed to the active Axie community and the cute pets – called Axies – that are used for battles. The other part is the new ‘Play-to-Earn’ gaming model. This model allows players to earn ‘real’ money by playing the game. Depending on the token price, the rewards were said to be somewhere between USD 300-500 per month earlier last month. With the latest increase of AXS they might be even higher.



Graphic 2: Monthly users from around the globe.

To understand how the 'Play-to-Earn' model works, it is necessary to take a closer look at the game and the tokens involved.

There are basically three types of tokens in the game.



Axie Infinity Shards (AXS)



Smooth Love Potion (SLP)



NFTs (Axies, lands, items)

To play the game players need at least three Axies. The Axies can be bought on the marketplace and currently cost around USD 200 or more.

To breed new Axies, players need 4 AXS and a certain number of SLP. To control the Axie population, it becomes increasingly expensive to breed Axies with same parents. After being used for breeding 7 times, Axies become sterile and cannot be used for further breeding.

breed count	breed number	SLP cost
(0/7)	1	150
(1/7)	2	300
(2/7)	3	450
(3/7)	4	750
(4/7)	5	1200
(5/7)	6	1950
(6/7)	7	3150

As all assets in the game are represented by NFTs and all rewards are paid in AXS or SLP, there are different ways for players to earn income:

- » farming SLP and AXS by playing quests or battling other players
- » participating in tournaments
- » breeding new Axies and selling them on the marketplace
- » speculating on rare Axies

In the future, it will also be possible to use AXS for staking. Staked AXS will allow token holders to earn additional AXS from the staking and treasury pool.

Now that we know the basic gaming mechanics and the functions of each token, it is time to get a better understanding of the legal and regulatory environment in Japan. As the results of the analysis vary considerably, it is necessary to assess each activity and token individually.

Farming of AXS/SLP: The farming of SLP and AXS by playing quests or battling other players is generally subject to the limitations under the **Improper Premiums and Misleading Representations Act (IPMR)**. The IPMR provides limits for items and other assets that can be given away for 'free'. In the case of play-to-earn models where players must make an initial investment to play the game, the amount that can be given away for free is limited to JPY 100,000 or 2 percent of the initial sales, whichever is higher, or – for initial investments below JPY 5,000 up to 20 times the price of the initial investment.

Gambling laws do generally not apply as users are not required to pay any fees to qualify for the rewards. The fact that users must purchase three Axies to play the game is irrelevant as the purchase is neither directly nor indirectly linked to the rewards earned by playing quests or battling other players.

As users are not required to pay any fees or other consideration – time and effort spent for playing the game are not considered – there is no purchase or exchange of crypto assets. Crypto asset regulations do therefore not apply to the issuance of AXS and SLP.

Tournaments: Where players are required to pay a fee to participate in a tournament and win rewards, there is a high chance that both the organization of the tournament and the participation in the tournament is considered illegal gambling. Something different only applies where the fees are only used to cover the expenses of the organizer. The expenses may include prizes for the winning players or teams.

Breeding of Axies: Since a user must pay a certain amount of SLP to breed new randomly generated Axies, there is a possibility that the breeding of new Axies is considered illegal gambling.

Selling Axies: When selling items combined with the promise of future returns, companies must comply with the Specified Commercial Transaction Act. Under the act, companies must not engage in certain advertising efforts and must disclose specific information, including the company's name, to prospects. Given the ambiguous wording of the act, it is uncertain whether it applies to the sale of Axies by Sky Mavis. For sales by users, the act is irrelevant.

Selling AXS, SLP, NFTs by Users: The sale of AXS, SLP, and NFTs by the user is not regulated under Japanese laws.

Marketplace for AXS, SLP, NFTs: AXS and SLP are considered crypto assets under Japanese laws. Anyone who offers a marketplace for the exchange of AXS and SLP would therefore generally have to register as a crypto asset exchange. The same would apply to custodial wallets that manage the private keys controlling the users' AXS and SLP.

NFT marketplaces for Axies, items, and lands are not regulated in Japan.

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DISCLAIMER

The play-to-earn mechanism of Axie Infinity is only used for illustrative purposes. Given the format of the article, not all details of the game mechanics and token design have been considered comprehensively, so that the results of the assessment may deviate from the results by the regulator, or a legal opinion prepared by us or another law firm. By no means, should the explanations be understood as a legal opinion.