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**Overview of the Draft Report on the Cryptoasset System
Working Group and Its Impact on Practice**

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1. Compilation of the Draft Report and Future Outlook

The Financial Services Agency's Financial System Council "Working Group on Cryptoasset Systems" has been examining the revision of cryptoasset regulations since its establishment on June 25, 2025. At the sixth meeting held on November 26, a draft report¹ summarizing the results of the deliberations was mostly approved.

Going forward, based on the final report of the Council, draft amendments to relevant laws and regulations are expected to be submitted to the ordinary Diet session in 2026, with new regulations potentially being introduced as early as spring 2027.

The most significant point in this draft report is the transfer of cryptoasset-related regulations from the Payment Services Act (PSA) to the Financial Instruments and Exchange Act (FIEA). This fundamental revision repositions cryptoassets from "payment instruments" under the PSA (regulated since 2016) to "financial instruments," representing a critical system change for the cryptoasset industry.

This article will organize the overall picture of the draft report and then outline what impacts are anticipated for existing cryptoasset-related businesses if this content is implemented.

2. Overview of the Draft Report

2.1 Necessity and Basic Policy for Regulatory Revision

The draft report presents issues accompanying the use of cryptoassets as investment targets and proposes the following:

- Apply FIEA regulations to cryptoassets
- Establish a separate regulatory category from securities
- The scope of regulation shall be cryptoassets under the current law (PSA)
- Stablecoins are excluded.
- NFTs remain outside uniform financial regulation.
- Existing cryptoasset regulations under the PSA will be removed.

¹ https://www.fsa.go.jp/singi/singi_kinyu/angoshisanseido_wg/gijishidai/20251126/03.pdf

2.2 Information Provision Regulations

As a major change accompanying the transition to FIEA, the draft report proposes establishing an obligation to provide information at the time of new sales and a continuing information provision obligation, based on the necessity of providing information to users in cryptoasset transactions.

2.2.1 Information Provision at Time of New Sales

Content of Information Provision

From the perspective of eliminating information asymmetry, the draft report states that information should be provided regarding the nature and functions of cryptoassets, supply volume, underlying technology, accompanying rights and obligations, inherent risks, etc. Additionally, for centralized cryptoassets (*), information provision regarding the centralized administrator is also required in addition to the above information.

- Market capitalization, circulation status (liquidity risk)
- Number of issued units, maximum issuable number and whether it can be changed, past issuance/redemption status, future issuance/redemption plans, holdings by centralized administrators and their related parties (dilution risk)
- Information about centralized administrators, use of raised funds, usage status, business plans for target businesses, progress status of target businesses (business risk)
- Value transfer verification mechanisms, information about code audits and security audits (technological and operational risks)
- Information about the development background, technology, tokenomics, and utility of cryptoassets (product characteristics)

(*) Criteria for Determining Centralized Cryptoassets

For centralized cryptoassets, the draft report states that their scope should be determined by focusing on control over distribution aspects (issuance and transfer authority) and content aspects (authority to design and change specifications), citing the following types as examples:

- Cryptoassets where only specific parties have issuance authority (management entity for issuance/generation exists)
- Cryptoassets based on permissioned blockchains (management entity for transfers exists)
- Cryptoassets issued based on underlying token standards such as ERC-20 (entity defining specifications exists)

Entities Subject to Information Provision Obligations

Regarding entities subject to information provision obligations, the draft report states that Cryptoasset Exchange Service Providers (CESPs) should play the fundamental role and should establish a system to collect necessary information and provide it to users. On the other hand, for centralized cryptoassets, when their centralized administrators raise funds from general users, information provision obligations should be imposed on those centralized administrators.

For cryptoassets issued overseas that are handled by domestic CESTs, it is considered that CESTs will provide information regardless of whether a centralized administrator exists.

Summary of Information Provision at Time of New Sales

Type	Issuer Fundraising	Information Provision Obligor	Main Information to be Provided	Notes
Centralized Cryptoassets	Yes	Issuer/ CEST	- Nature, functions, supply volume, underlying technology - Risks (liquidity, dilution, business, technological) - Issuer information, use of funds, business plan - Holdings, product characteristics, etc.	Unclear which party is primarily responsible
	No	CEST	- Nature, functions, supply volume, underlying technology - Risks - Issuer information, etc.	—
Decentralized Cryptoassets	—	CEST	- Nature, functions, supply volume, underlying technology - Risks, product characteristics, etc.	—
Foreign Issued	—	CEST	- According to the above	Measures to ensure accuracy and objectivity under consideration
Private Placement/Private Offering	Yes	Exempt	—	Measures to ensure accuracy

2.2.2 Continuing Information Provision

The draft report states that due to the nature of cryptoassets, events that affect investment decisions such as specification changes and business progress are likely to occur, and therefore, timely disclosure obligations should be imposed on issuers or CESTs when significant events occur. Additionally, to supplement timely disclosure, it is appropriate to require issuers to provide periodic information once a year regarding the issuer's business activities, etc.

2.3 Business Regulations

With the transition to the FIEA framework, the draft report indicates a direction to strengthen business operations, user asset management, security measures, etc., centering on regulations equivalent to Type I Financial Instruments Business for businesses conducting cryptoasset trading, etc.

2.3.1 Concurrent Business Regulations

Concurrent business regulations refer to regulations where Type I Financial Instruments Business Operators conducting securities trading, etc., and Investment Management Business Operators conducting fund management, etc., cannot in principle conduct businesses other than those listed in FIEA, and require prior approval or notification to conduct other businesses.

The draft report requires CESTPs to undergo prior checks when conducting other businesses from the perspective of preventing conflicts of interest and protecting users, similar to concurrent business regulations under FIEA. However, businesses incidental to cryptoasset exchange service, such as consulting services related to blockchain, etc., do not require notification or approval, and it is considered that other businesses may only require prior notification.

2.3.2 Development of Business Management Systems

From the perspective of user protection, the draft report requires CESTPs to establish more robust management systems. In particular, the following system development is required:

- Examination system for cryptoassets to be handled
- Information provision system regarding cryptoassets to be handled
- System to confirm trading suitability according to customer risk-bearing capacity
- Trading examination system
- System enabling suspension of handling when issuers violate information provision regulations

2.3.3 User Protection During Solicitation and Offerings

Based on the indication that issuers have weak economic incentives to meet user expectations after fundraising through IEOs and other cryptoasset solicitations and offerings, the draft report proposes the following user protection measures:

- Setting investment limits when financial audits by audit firms have not been conducted
- Obligation to explain when there is an interest relationship between CESTPs and issuers (conflict of interest prevention)
- Prohibition in principle of advantageous issuance to specific parties during listing examination and after listing
- Setting lock-up periods for issuers and their related parties

2.3.4 Management of User Assets

Regarding management of user assets, the draft report maintains the current segregated management

obligation as the basic approach. On the other hand, considering the increasing sophistication of methods in recent unauthorized outflow cases, it states that new safety management measures need to be legally mandated, while also premising flexible response through guidelines, etc.

Additionally, when CESTs receive provision of important systems for cryptoasset management from external businesses, it is appropriate to establish a system where prior notification, supervisory authority, and conduct regulations are introduced for such businesses, and CESTs can only receive provision from notified businesses.

2.3.5 Reserve Funds

The draft report states that since hacking outflow risks exist even for cryptoassets managed in cold wallets, etc., there needs to be preparation to appropriately provide necessary compensation to customers. Therefore, while being considerate not to impose excessive burdens on CESTs, it should require the accumulation of reserve funds at appropriate levels based on past outflow case occurrence situations and security levels.

Additionally, from the perspective of broadening options for securing compensation sources, it is organized that insurance enrollment, etc., should be considered either as an alternative to reserve funds or in combination with reserve funds.

2.3.7 Cryptoassets Lending

Regarding lending businesses where cryptoassets are borrowed from users for staking or re-lending, the draft report states that since these are acts where users take risks to pursue returns, from the perspective of user protection, they should be subject to business regulations under FIEA, and the following system development obligations and conduct regulations should be imposed²:

- System to manage credit risk and slashing risk of re-lending destinations
- Safety management system for borrowed cryptoassets
- Risk explanation to users and advertising regulations

2.3.9 Business Regulations for Issuers

The draft report states that issuers selling cryptoassets directly must maintain exchange service registration, except for private placements or offerings. When delegating to CESTs, issuer registration becomes unnecessary.

2.4 Unfair Trading Regulations

2.4.1 Insider Trading Regulations

² It is considered appropriate not to subject borrowings that are not of a public nature, such as those made by institutional investors or individuals from CESTs, to industry regulation. The level of regulation should also be appropriate, and necessary transitional measures should be considered.

Based on recent recommendations by the International Organization of Securities Commissions (IOSCO), legislation in Europe and South Korea, and law enforcement cases in the United States, the draft report states that cryptoasset insider trading regulations with a surcharge system should be established.

Specifically, it is necessary to prohibit (i) persons in a special position (insiders) who have access to (ii) "material facts" regarding "target cryptoassets" from engaging in any transactions that (v) undermine users' confidence in the trading venues before (iv) the "public disclosure" of such facts.

Target Cryptoassets

Target cryptoassets for regulation are cryptoassets handled at domestic CESTs, including cryptoassets for which formal handling applications have been made to CESTs .

Material Facts

Material facts are appropriately individually enumerated for the following three types while supplemented with basket clauses:

- Material facts regarding business of issuers of centralized cryptoassets (e.g., issuer bankruptcy, discovery of serious security risks, etc.)
- Material facts regarding handling of cryptoassets at CESTs (e.g., new listing/delisting of cryptoassets, outflows, etc.)
- Material facts regarding large-scale transactions (e.g., trading of 20% or more of issued cryptoassets)

Regulated Persons

Regarding regulatory targets, it is appropriate to target cases where persons in special positions with access to material facts know internal information due to being in such positions. Specifically, depending on the type of material fact, it is anticipated that related parties of issuers of centralized cryptoassets, related parties of CESTs, related parties of those conducting large-scale transactions, and primary information recipients from these parties will be targeted.

2.4.2 Other Unfair Trading Regulations

In addition to insider trading regulations, among unfair trading regulations for securities—such as stealth marketing regulations-- that are considered applicable to cryptoassets should also be established:

2.5 Other Important Points

2.5.2 Response to Unregistered Businesses

Criminal penalties for unregistered businesses will be strengthened (imprisonment of not more than 5 years or a fine of up to 5 million yen, or both), and enforcement such as emergency injunctions established for unregistered financial instruments businesses will be arranged. Additionally, investment management and investment advice regarding cryptoassets should also be subject to

Investment Management Business and Investment Advisory Business.

2.5.3 Response to DEX, etc.

Regarding DEX, no detailed proposals have been made as a regulatory plan at this time, but it is stated that consideration of appropriate regulations matching technical characteristics will continue.

Additionally, for those providing UI such as apps connecting to DEX to domestic residents, it is stated that there is a need to deepen understanding of regulatory trends in each country and actual service conditions, with the intention of imposing appropriate regulations according to risks, including obligations to explain risks related to connection destinations and AML/CFT measures including identity verification obligations under the Act on Prevention of Transfer of Criminal Proceeds.

3. Anticipated Impact on Practice

The following summarizes the anticipated impact on practice by business type/business format if the content of the draft report is realized, to the extent that can be anticipated.

No.	Business Type/Format	Impact Level	Main Impact Items	Notes
1	Cryptoasset Exchange Service Providers	◎	<ul style="list-style-type: none"> - Obtaining licenses under FIEA - Information provision regulations (new sales/continuing) - Examination of centralized cryptoasset applicability - Concurrent business regulations - Business management system development - Safety management measure development - Suitability principle/best execution obligation - Reserve fund accumulation - Unfair trading regulations 	<ul style="list-style-type: none"> - Cryptoasset exchanges (order book trading) excluded from market opening regulations - Businesses incidental to exchange service do not require notification/approval; other businesses require prior notification - Providers of wallets, etc., limited to notified businesses - Although outside the scope of the draft report, possibilities of tax reform and leverage regulation relaxation
2	Financial Instruments Business Operators	△?	<ul style="list-style-type: none"> - Possibility of recognizing concurrent business regulation relaxation (prior notification) for businesses only conducting cryptoasset derivative 	<ul style="list-style-type: none"> - Cryptoasset derivative order book trading excluded from market opening regulations - Although outside the scope of the draft report,

			trading	possibility of cryptoasset ETF
3	Electronic Payment Instrument/Cryptoasset Service Intermediary Business Operators	○	- Transition to Financial Instruments Intermediary Business -Application of regulations such as sales representative system	—
4	Electronic Payment Instrument Issuers/Electronic Payment Instrument Service Providers	×	—	- Electronic payment instruments excluded from scope
5	Cryptoasset Issuers (Centralized Type)	○	-Information provision regulations (new sales/continuing) -Prohibition of advantageous issuance during/after listing examination -Lock-up period setting before/after listing -Unfair trading regulations	- Fundraising through secondary trading also subject to information provision regulations
6	System Providers (Wallets, etc.)	◎	-Subject to prior notification regulations -Setting of disqualification reasons, conduct regulations, supervisory authority	-Attention to appropriate level of regulation -Necessary transitional measures also under consideration
7	Lending (Borrowing) Business Operators	◎	-Subject to FIEA regulations -Obligation to develop risk management systems -Obligation to develop cryptoasset safety management systems -Risk explanation obligations to users and advertising regulations	-Attention to appropriate level of regulation -Necessary transitional measures also under consideration -Borrowing by institutional investors and individuals from CESTs excluded from regulation
8	Staking Service Providers	×	—	-Not mentioned in draft report -Impact exists if applicable to cryptoasset

				lending or management
9	Investment Management/Investment Advisory Business Operators	◎	<ul style="list-style-type: none"> - Investment management and investment advice regarding cryptoassets subject to Investment Management Business and Investment Advisory Business - Possibility of requiring cybersecurity system development for cryptoasset investment management operators 	—
10	Financial Instruments Exchanges	×	<ul style="list-style-type: none"> - Listing of cryptoasset spot difficult for the time being 	—
11	Banks/Insurance Companies (Main Entity)	△	<ul style="list-style-type: none"> - Trading/intermediation continues to be prohibited - Investment management of cryptoassets also prohibited - Investment purpose holding under consideration 	<ul style="list-style-type: none"> - Investment purpose holding premised on sufficient risk management and system development
12	Banks/Insurance Companies (Subsidiaries, etc.)	○	<ul style="list-style-type: none"> - Trading/intermediation possible - Investment management of cryptoassets/investment purpose holding possible 	<ul style="list-style-type: none"> - Same as subsidiaries for sibling and affiliated companies
13	DEX Operators	×	<ul style="list-style-type: none"> - Regulations under continued consideration 	<ul style="list-style-type: none"> - International discussion necessary
14	DEX UI Providers	△	<ul style="list-style-type: none"> - Considering regulations such as risk explanation obligations, AML/CFT measures - Efforts to understand regulatory trends in each country and actual conditions 	<ul style="list-style-type: none"> - Risk awareness by authorities and exchange operators, etc.
15	Unregistered Businesses	○	<ul style="list-style-type: none"> - Strengthening of criminal penalties - Strengthening of enforcement - Consideration of creating 	<ul style="list-style-type: none"> - Note that if civil effect provisions invalidating contracts as profiteering acts are established, impact may become ◎

			civil effect provisions invalidating contracts as profiteering acts	
16	Mining Business Operators	×	—	-Not mentioned in draft report -Subject to regulation if applicable to funds
17	NFT Business Operators	×	—	- NFTs in principle excluded from regulation - If applicable to cryptoassets or security tokens, already subject to regulation under current law and will remain subject to regulation after amendment
18	Blockchain Game Business Operators	×	—	- Free distribution and automatic token distribution as rewards not fundraising, therefore excluded from regulation
19	Proprietary Trading	×	—	- Excluded from regulation if not conducted "as a business"

Key: ◎=Major Impact, ○=Significant Impact, △=Limited Impact, ×=No Impact

Reservations

- This article is based on the content of the draft report at the time of writing and may be changed or revised as appropriate depending on the final report content.
- This article describes what is reasonably conceivable based on the descriptions in the draft report, current laws and regulations, and guidelines. All are views at the time of writing based on the draft report descriptions, and regulations as described in the draft report are not necessarily certain to be introduced, and even if introduced, the impact on practice may differ.
- This article was created as an article to be published on our firm's website and does not constitute legal advice for specific cases. If legal, accounting, tax, or other advice is needed for specific cases, please consult professionals such as attorneys, tax accountants, certified public accountants, etc.