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Entering Japan's Gaming Market: Legal Issues Around Social Casino and Sweepstakes

September 25, 2025

Key Words: Market Entry Japan, Social Casino Japan, Sweepstakes Japan, Gambling Law Japan, Penal Code Article 185, Unfair Premiums Act Japan, Payment Services Act Japan, Act against Unjustifiable Premiums and Misleading Representations Japan, Prepaid Payment Instruments Japan, Specified Commercial Transactions Act Japan, Consumer Protection Gaming Japan.

I. Introduction¹

Japan is one of the most attractive yet legally complex markets for the global gaming industry. The market is characterized by a highly engaged user base, advanced smartphone penetration, and a cultural familiarity with game-like experiences such as *pachinko* and *gacha*. At the same time, Japan is also home to some of the strictest gambling prohibitions among developed countries, creating a uniquely challenging environment for operators of “social casino” or “sweepstakes” models. While these models have expanded rapidly in other jurisdictions, their status under Japanese law depends on careful legal structuring.

This article provides an overview of the legal landscape in Japan, clarifies the boundaries between entertainment and gambling, explains the compliance framework for sweepstakes, and outlines practical steps foreign operators must take when considering entry into the Japanese market.

II. The Legal Landscape in Japan

Japan maintains one of the strictest legal regimes against gambling among developed

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jurisdictions. At the core is Article 185 of the Penal Code, which criminalizes gambling activities.² Under this provision, any act of betting or wagering with the possibility of monetary or tangible gain is generally deemed illegal. Violations may result in fines or imprisonment, and the scope of the prohibition is broad, covering both organizers and participants.³

Despite this broad prohibition, Japan operates under a “principle of illegality with narrow statutory exceptions.” In other words, all gambling is presumed illegal unless expressly permitted by law. The principal exceptions are:

- **Publicly sanctioned gambling** such as horse racing, bicycle racing, boat racing, and motorcycle racing, each regulated under special legislation and operated under government supervision.
- **Integrated Resort (IR) casinos**, newly authorized under the Integrated Resort Implementation Act (enacted in 2018), which are strictly licensed and monitored by the Casino Regulatory Commission.
- Certain minor exceptions under the Penal Code, such as “gaming for momentary amusement with negligible stakes” (trivial, non-commercial bets),⁴ which have no commercial application.

Accordingly, operators must begin with the understanding that gambling-related business models are illegal by default, unless they can be firmly situated within one of these statutory exceptions or structured to avoid the legal definition of gambling altogether (e.g., by eliminating monetary prizes or exchangeability).

III. Social Casino: Where Is the Line Between Entertainment and Gambling?

A central issue in Japan is whether the in-game currency or points carry “monetary value”. Under the Penal Code, gambling requires (i) a stake of property or value and (ii) the chance to win or lose such property by luck or skill. If in-game coins, credits, or tokens cannot be redeemed for money or goods, the activity may be characterized as mere entertainment

² Article 185 of the Penal Code provides that “[a] person who gambles is punished by a fine of not more than 500,000 yen or a petty fine; provided, however, that the same does not apply to a person who gambles occasionally provided for recreational amusement.”

³ Article 186, Paragraph 2 provides that “[a] person who, for the purpose of profit, runs a place for gambling or organizes a group of habitual gamblers is punished by imprisonment for not less than 3 months but not more than 5 years.”

⁴ Article 185 of the Penal Code.

rather than gambling.

1. Virtual Coins and Points

Games that allow users to purchase coins or credits for play but do not offer any official redemption mechanism may generally be permissible, depending on the structure of the game. However, the regulatory risk would likely increase significantly if:

- Players can transfer or sell these coins to third parties; or
- A marketplace (even informal or player-driven) develops in which the coins acquire real-world monetary value.

In practice, Japanese regulators and courts may view such third-party exchangeability as evidence that the game is functionally a form of gambling, even if the operator itself does not directly provide a redemption mechanism.

2. Risk of Misunderstanding

It is also important to recognize that “free-to-play” does not automatically equate to legality. For example:

- If the free play element is accompanied by purchasable “premium currency” that materially affects gameplay, regulators may scrutinize whether the model encourages excessive spending akin to gambling.
- “Social casino” games that simulate slot machines, poker, or roulette, even without cash-out functionality, can still be perceived as gambling-like content and draw regulatory attention, particularly when heavily monetized through in-app purchases.

In short, the line between entertainment and gambling in Japan hinges not only on the absence of direct redemption but also on the practical reality of how players use and value the in-game items.

IV. Sweepstakes in Japan: Compliance Requirements

In Japan, sweepstakes and promotional prize schemes are subject to a legal regime separate from gambling law. The Act against Unjustifiable Premiums and Misleading Representations governs how businesses may offer prizes or rewards to consumers.

Under the Act, there is a distinction between two basic types of sweepstakes:

- **Open Sweepstakes:** Entry is free, and no purchase is required. Examples include campaigns where participants can enter a draw by submitting an online form or

answering a questionnaire. Previously, the maximum value of prizes in open sweepstakes was capped at JPY 10 million, but this restriction was abolished in 2006. Today, there is no statutory ceiling on the value of prizes that may be offered, although regulators may still intervene if the scheme is deemed misleading or excessive.

- **Closed Sweepstakes (General Sweepstakes):** Entry requires a purchase or other form of consideration. For instance, a campaign where buying a product or service provides a lottery ticket for a prize draw. Because such promotions may encourage excessive spending, the law imposes stricter limits on prize amounts. The Act sets quantitative caps to closed sweepstakes:⁵
 - (i) **The “20x Rule”:** If the value of the underlying transaction is less than JPY 5,000, the maximum value of an individual prize may not exceed 20 times that transaction value. If the transaction value is JPY 5,000 or more, the maximum prize value is capped at JPY 100,000.
 - (ii) **The “2% Rule”:** The total value of prizes distributed under the scheme must not exceed 2% of the total sales related to the campaign.

V. Other Practical Considerations for Foreign Operators

Foreign operators interested in entering the Japanese market must consider not only the gambling restrictions outlined above but also several practical compliance requirements.

1. Payment Services Act (PSA) Filings and Security Deposit

If the in-game virtual currency or prepaid instruments accumulate an unused balance exceeding JPY 10 million (approx. EUR 60,000), in principle, the operator must make a notification filing under the Payment Services Act. This filing requires disclosure of the prepaid scheme, and compliance with reporting obligations. In addition, once the threshold is crossed, operators may also be required to lodge a security deposit with the Legal Affairs Bureau equivalent to half of the outstanding balance.

2. Establishing a Japanese Entity (KK / GK)

⁵ See, “Overview of the Premiums Regulation” published by the Consumers Affairs Agency, available at,

https://www.caa.go.jp/policies/policy/representation/fair_labeling/premium_regulation

It is noteworthy that several other categories of sweepstakes exist (such as joint sweepstakes and non-lottery sweepstakes), each subject to their own detailed regulatory requirements. Businesses considering sweepstake-based models in Japan should be vigilant and ensure compliance with all applicable rules.

When issuing prepaid payment instruments to players in Japan, it is generally necessary to establish a local legal entity or a branch office.⁶ Most international gaming companies choose to set up a local entity, and in practice the two most common corporate forms are:

- ***Kabushiki Kaisha (KK)***: The standard form for larger companies, recognized by Japanese regulators and business partners as a robust corporate structure.
- ***Godo Kaisha (GK)***: A more flexible and cost-efficient form, comparable to an LLC in the United States.

3. Advertising Rules and User Disclosure Obligations

Japan imposes strict rules on advertising and user-facing disclosures:

- **Act on Specified Commercial Transactions**: Requires online service providers to post clear disclosures in Japanese on their websites, including the operator's name, address, representative, fees, and terms of service.
- **Consumer protection standards**: Require transparency about in-app purchases, refund policies, and risks of virtual currency usage.

In practice, this means that operators must prepare disclosure statements in Japanese as well, adapt their websites to comply with local requirements, and ensure that advertising does not mislead or overstate benefits.

VI. Conclusion

Japan presents both significant opportunities and unique challenges for foreign operators in the gaming and entertainment sector. On one hand, the country is one of the world's largest mobile gaming markets, with highly engaged users and a proven appetite for innovative content. On the other hand, the legal framework is particularly strict: gambling is prohibited by default, and any business model that blurs the line between entertainment and gambling must be carefully structured to avoid criminal liability.

For social casino and sweepstakes models, the key compliance questions hinge on whether in-game items have monetary value and how prizes or promotional rewards are structured under Japanese law. Operators must also be prepared to navigate additional obligations, including Payment Services Act filings, local entity establishment, and mandatory disclosure requirements under consumer protection and advertising regulations.

⁶ See, Article 36 of the Payment Services Act.

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