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Prepaid Payment Instruments and PSA Deposit Requirements in Japan: Implications for IAP Game Operators

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I. Introduction¹

Japan remains one of the most strategically important markets for global game publishers. It consistently ranks among the top countries worldwide in terms of consumer spending on in-app purchases (“IAPs”), supported by a mature smartphone ecosystem, high user retention, and a strong culture of digital entertainment consumption.

For international publishers planning to launch or expand pay-to-play or freemium IAP-based titles in Japan, it is crucial to recognize that Japan applies a financial regulatory framework that treats paid in-game currencies and other retained digital assets as “prepaid payment instruments.” This framework is governed by the *Payment Services Act* (“PSA”), which imposes specific obligations on issuers of paid digital assets, including notification requirements, periodic reporting, disclosure obligations and a mandatory security deposit covering a portion of unused balances.²

¹ This communication is provided as a service to our clients and friends and is for informational purposes only. It is not intended to create an attorney-client relationship or constitute an advertisement, a solicitation, or professional advice as to any particular situation. Further, the legal framework related to gaming and consumer protection laws in Japan is subject to frequent amendments and evolving regulatory interpretations. Readers are strongly encouraged to verify the most up-to-date information and seek advice from counsel before taking any action.

² For a general overview of the obligations under the PSA, please refer to our previous insights, [Call of Legal Duty: Navigating the Payment Services Act for In-game Currency in Japan](#) and [Launching a Game in Japan](#).

Among these obligations, this article focuses on the deposit requirements applicable to overseas game publishers offering IAP-based titles to Japanese users. It explains when a deposit obligation is triggered, how unused paid balances are calculated, what deposit schemes are available, and the common pitfalls encountered by non-Japanese market entrants.

II. What Triggers PSA Regulation?

The PSA applies when a game publisher issues “prepaid payment instruments”, a legal term that broadly covers paid in-game currencies or digital items that can be used to purchase goods or services within the same ecosystem.

Under the PSA, a digital asset will generally fall within the definition of a prepaid payment instrument if the following conditions are met:³

1. **Stored Value**

The monetary value is recorded or stored in a tangible or electronic form.

2. **Issued in Exchange for Consideration**

The instrument is issued in exchange for a corresponding value (consideration).

3. **Utilized for Payment**

The instrument can be used to pay for goods and services.

If these requirements are met, the in-game item or currency will likely be considered a prepaid payment instrument (“**PPI**”) under the PSA.⁴ Once the total unused paid balance exceeds a certain threshold (JPY 10 million), the publisher becomes subject to additional obligations, including notification filing with the Financial Services Agency (“**FSA**”) and making the security deposit at the Legal Affairs Bureau.⁵

It is important to note that the PSA applies where the *user is located in Japan*, regardless of whether the game operator is a foreign entity or the servers are hosted outside the country.⁶

[Legal and Practical Checklist for Overseas Publishers \(Part 1 – Pre-Launch Preparation\)](#)

³ Article 3, Item 1 of the PSA.

⁴ The PSA excludes Prepaid Payment Instruments with a validity period of six months or less from this regulation. Some game applications set the expiration date of in-game currencies within six months to be exempt from the regulations under the Payment Services Act.

⁵ Article 5 of the PSA.

⁶ See, Article 36 of the PSA.

III. Why a Deposit Is Required

Once an issuer of the PPI becomes subject to regulation under the PSA, it is generally required for the issuer to secure a deposit that covers at least fifty percent of the unused paid balance held by users.⁷ The issuer must update the deposit amount on a semiannual basis—specifically, as of March 31 and September 30 each year—so that the deposit continues to cover at least one half of the unused paid balance at those reference dates.⁸ The updated information must then be reported to the FSA.⁹ In other words, the issuer is under a continuing obligation to both maintain and report the deposit every six months. Each of these semiannual procedures must be completed by the end of May and the end of November, respectively.

The core legislative purpose of this deposit mechanism is consumer protection. From the regulator's perspective, players who have purchased in-game currency or other digital items hold a form of prepaid value. If the publisher were to discontinue the game or become insolvent, Japanese law seeks to ensure that users are not left unprotected. The deposit functions as a reserve fund that may be used to compensate users for a portion of their remaining paid balance.

Japan has chosen a fifty-percent threshold as a balance between regulatory burden and consumer safety. Requiring full coverage of unused balances would impose a heavy cash burden on developers and potentially discourage market entry. However, leaving users entirely exposed to loss was deemed unacceptable. By requiring the deposit to cover at least half of the unused paid balance, the PSA aims to offer reasonable protection while still allowing developers flexibility in their cash management.

IV. Schemes for Securing the Deposit

In principle, there are three legally recognized methods for securing the deposit:

- (i) making a direct cash deposit with the Japanese Legal Affairs Bureau,¹⁰
- (ii) entering into a bank guarantee agreement with a qualified financial institution,¹¹ or

⁷ Article 14, Paragraph 1 of the PSA.

⁸ Article 14, Paragraph 2 of the PSA.

⁹ *Id.*

¹⁰ Article 14, Paragraph 1 of the PSA.

¹¹ Article 15 of the PSA.

- (iii) placing the required funds under a trust agreement with a licensed trust company.¹²

1. Direct Cash Deposit with the Legal Affairs Bureau

Among these options, a direct cash deposit is the most straightforward from a legal standpoint. In this structure, the issuer of the prepaid payment instrument transfers the required amount to the LAB, which holds it as a statutory guarantee.¹³

When making a direct deposit, the publisher files a deposit application with the LAB. The application itself must comply with the specific format and description designated by the LAB. In practice, it is common for the publisher's legal representative to visit the LAB in person and finalize the content of the filing through consultation with a LAB officer. In most cases, the LAB issues its approval decision on the date of application.

Once approval is granted, the issuer must transfer the deposit amount to the LAB's designated bank account within the prescribed period, which is usually within approximately one week. Accordingly, it is prudent for the issuer to confirm in advance that the necessary deposit funds can be transferred immediately once the approval is granted. It is also possible to transfer the deposit to the LAB from an overseas bank account rather than from a Japanese domestic bank account.

Following the remittance, the issuer receives the original certificate of deposit from the LAB, which contains the assigned deposit reference number. The issuer must then include this reference number in its PSA report and submit a copy of the certificate of deposit, together with the report, to the FSA.

2. Bank Guarantee Agreement

The second option is to enter into a bank guarantee agreement with a financial institution.¹⁴ Under this structure, the bank undertakes to pay the guaranteed amount on behalf of the issuer in the event of regulatory enforcement or insolvency. This allows the publisher to avoid an immediate cash outlay equivalent to the full deposit.

However, Japanese financial institutions typically conduct a credit assessment before

¹² Article 16 of the PSA.

¹³ It should be noted that merely retaining an equivalent amount in the issuer's own bank account does **not** satisfy the deposit obligation, a point that is sometimes misunderstood by foreign game publishers in practice. Furthermore, the deposited amount held by the LAB does not accrue any interest.

¹⁴ Article 15 of the PSA.

accepting such an arrangement. As a result, small to mid-sized foreign game publishers that lack a substantial presence, tangible assets, or employees in Japan may find it difficult to obtain a bank guarantee, as financial institutions are often reluctant to enter into such agreements with entities that have no established domestic credit record.

3. Trust Agreement with a Licensed Trust Company

The third option is a trust agreement with a licensed trust company.¹⁵ The issuer places funds into a designated trust account, which is then segregated and held for the benefit of users. However, trust companies may impose minimum transaction sizes or other eligibility criteria, which may exclude smaller or newly established foreign gaming companies.

V. Common Pitfalls for Overseas Publishers

Although the PSA deposit framework may appear straightforward in principle, overseas publishers often encounter practical obstacles.

First, one of the most common issues is the delayed recognition of PSA applicability. Many publishers only begin evaluating regulatory requirements after paid IAP sales have already accumulated in Japan. In some cases, the unused paid balance has already exceeded the statutory threshold for notification (i.e., JPY 10 million), which places the publisher at risk of being deemed non-compliant retrospectively.

Second, another source of difficulty lies in the classification of paid versus free issuance. When part of the prepaid value (such as in-game currency) is issued free of charge, the unpaid portion may nevertheless fall within the scope of the PSA unless two conditions are clearly satisfied:

- (1) **separate display**, meaning that paid and free portions are clearly distinguishable to users through labeling, design, or other visual indications; and
- (2) **separate accounting**, meaning that the issuer maintains distinct records in its books for paid and free issuance.¹⁶

If either of these conditions is not met, even the free portion is required to be treated as a prepaid payment instrument and must be included in the issuer's calculations of unused

¹⁵ Article 16 of the PSA.

¹⁶ Section I-2-1 (3) of the FSA's Guidelines for Issuers of Prepaid Payment Instruments. See, also, "FAQs on the Prepaid Payment Instruments" by the Japan Payment Service Association (*Nihon Shikin Kessai Gyō Kyōkai*), available at: https://www.s-kessai.jp/businesses/faq_01_b_answer2.html#q14

balance. In practice, some game publishers do not have systems capable of implementing a separate display function, and therefore are required to include the free portion when calculating the amount of the security deposit—resulting in a substantially higher deposit requirement.

Third, where in-game packages include bonus items or bundled promotions, publishers may unintentionally understate the regulated balance or apply allocation methods that regulators consider unreasonable, potentially leading to the need for restatement or deposit adjustment.

These challenges illustrate that PSA compliance is not a matter of simply “making a deposit” after launch. It requires early planning, accurate data segmentation and careful classification of paid and unpaid items.

VI. Conclusion

Japan remains one of the most commercially attractive markets for IAP-based game titles, but it is also a jurisdiction where monetization models are closely examined under the financial regulation. For publishers that treat Japan merely as an extension of a global release without tailoring compliance planning accordingly, the deposit obligation can lead to unanticipated cash constraints or regulatory delays. Conversely, publishers that address PSA compliance at an early stage (ideally before or during the localization and monetization planning phase) are better positioned to avoid disruption. When properly managed, PSA compliance becomes a predictable and controllable aspect of the market entry process—one that supports sustainable growth in a market known for high user engagement and long game life cycles.

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