

Client Alert

Regulatory Update: Japan Casinos

May 2014

Integrated Resort Initiative Update

On December 5, 2013, a cross-party group of Japanese law makers submitted a draft bill¹ (the “**Integrated Resort Promotion Bill**”) aiming to, among other things, legalize casino gambling. With many now expecting it to pass into law later this year, interest and speculation from the domestic and international community continues to grow as to what the regulatory landscape accompanying this long awaited liberalization will entail.

In this update, we briefly discuss the contents of the Integrated Resort Promotion Bill and key legal issues of interest moving forward for operators, private equity, financial institutions and real estate and construction companies, among others.

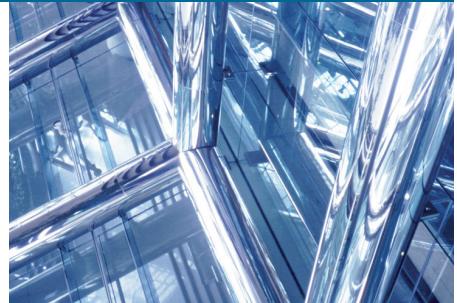
Summary of the Integrated Resort Promotion Bill

Introduction

The underlying aim of the Integrated Resort Promotion Bill is to promote the integrated resort industry and establish “Integrated Resort Facilities” (*tokutei fukugou kankou shisetsu*) within specified “Integrated Resort Areas” (*tokutei fukugou kankou shisetsu kuiki*)², and is part and parcel of an overall push from within political circles to revitalize the world’s third largest economy.

An Integrated Resort Facility is defined under the Integrated Resort Promotion Bill as a privately owned and operated complex including convention, recreation, exhibition, lodging and most notably, casinos facilities.³ Legal liberalization of casino facilities was first mooted in the late 90s.

In accordance with the Bill, the central government will select Integrated Resort Areas (i.e areas for the facilities to be developed), after which local governments will hold auctions for private bidders. After winning the auction process at the local level, the successful bidder will then be required to seek approval from the central government.⁴ In contrast to models in the US or other parts of Asia, it is widely thought that the number of licenses initially rolled-out will be limited to a single facility in each designated area until further analysis of the effects of such facilities can be undertaken.⁵ While not currently determined, market commentators expect that the Osaka and Tokyo bayside areas will be frontrunners for the locations of the first two facilities, with an



White & Case is a leading global law firm with lawyers in 39 offices across 26 countries.

If you have questions or comments about this alert, please contact:

Koichiro Ohashi
Partner, Tokyo
+ 81 3 6384 3151
kohashi@whitecase.com

Arthur Mitchell
Senior Counselor, Tokyo
+ 81 3 6384 3288
amitchell@whitecase.com

Tim Jeffares
Of Counsel, Tokyo
+ 81 3 6384 3283
tim.jeffares@whitecase.com

Tony Nicholson
Associate, Tokyo
+ 81 3 6384 3128
tnicholson@whitecase.com

¹ The draft bill concerning the promotion of the establishment of specified integrated resort facility areas (*tokutei fukugou kankoushishetsu kuiki no seibi no suishin ni kansuru houritsuan*).

² Article 1.

³ Article 2.1.

⁴ Articles 2.1 and 2.2.

⁵ Weekly Financial Affairs dated January 6, 2014, pg 73.

Regulatory Update: Japan Casinos

additional third location in Okinawa also a possibility. Second round candidate locations in Yokohama, Hokkaido, Tokushima, Nagasaki, Fukuoka and Miyazaki are also touted as possibilities.⁶

In permitting casino operators, the Integrated Resort Promotion Bill provides that the central and local governments are permitted to charge levies for operation and collect entrance fees from patrons.⁷

Outline of the provisions

In substance, the Integrated Resort Promotion Bill is a framework to ensure, within approximately one year of its passing into law, the enactment of more substantive law and regulation necessary to facilitate development and operation of Integrated Resort Facilities.⁸ Set out among its brief 23 articles are the following material issues with respect to "Casino Facilities" that the government shall address within the tight timeframe following enactment:⁹

- (a) The protection of the fairness of gaming activities;
- (b) The appropriate use of chips and other such monetary substitutes;
- (c) The prohibition of "anti-social forces" (*hanshakaiteki seiryoku*) and other inappropriate persons;
- (d) The implementation of monitoring systems to prevent crime;
- (e) The maintenance of good community standards;
- (f) The protection of minors;
- (g) Advertising and marketing standards; and
- (h) The prevention of gambling addiction and other possible adverse effects.

Implementation and administration

As noted above, it is generally expected that the Integrated Resort Promotion Bill will be enacted this year. In accordance with its provisions, it will then become enforceable as law within 3 months of the public notice of the enactment.¹⁰

To expedite the implementation of the raft of laws and regulations necessary to achieve its purpose, the Integrated Resort Promotion Bill stipulates that a headquarters be established within the Cabinet to set up an 'Integrated Resort Promotion Council' (the "**Promotion Council**").¹¹ The Promotion Council will be made up entirely of the Cabinet with the Prime

Minister acting as director-general.¹² If determined necessary by the Promotion Council, the Integrated Resort Promotion Bill provides that the Promotion Council may seek and rely on external advice, opinions and materials from national and local government institutions, agencies and other semi-governmental bodies.¹³

In addition to the Promotion Council, a "Casino Administration Committee" will be established as a branch of the Prime Minister's Office to regulate casino operators, maintain order and ensure security.¹⁴

Key Issues Moving Forward

Robust and comprehensive yet timely regulatory system

With market sentiment motivated to tie in target dates for completion of the first few Integrated Resort Facilities with Japan's hosting of the 2020 Olympics, legislators will have to carefully balance the tight timeframe with the need to be thorough in dealing with the expectations and requirements of all local and international stakeholders comprehensively. With several effective regulatory systems already in place within the Asia region, precedents that could be tailored to meet the idiosyncrasies of the Japanese market are certainly not hard to come by. Timely and efficient implementation is, however, not guaranteed at this stage, with those close to the industry reportedly expecting significant political and legislative hurdles yet to come.

Efficient and attractive bid process and transparent licensing regime

In light of the expected large scale of these Integrated Resort Facilities and the significant commitment of capital expenditure required, bidders, together with their financial institutions and capital market and private equity investors will be eager to see the intended bidding and licensing regime disclosed as soon as practicable to enable all to invest, with certainty, substantive time and effort into discussing the complex process of facility design and equity and debt structuring.

Realizing the market's need for such guidance early, it appears as though legislators intend to address this issue within one year. In particular, stakeholders will be interested in the law and regulations to be introduced with respect to the licensing of "Casino Facilities" (*kajino shisetsu*) and "Affiliated Persons of Casino Facilities" (*kajino shisetsu kankeisha*) alluded to under Articles 2 and 4 of the Integrated Resort Promotion Bill.

⁶ It's Raining Yen! Japan could be another Macau: Special Report, February 2014.

⁷ Article 12-13.

⁸ Article 5.

⁹ Article 10.

¹⁰ Supplementary provision.

¹¹ Article 14.

¹² Article 16.

¹³ Article 20.

¹⁴ Article 11.

Client Alert

Regulatory Update: Japan Casinos

Within the definition of Integrated Resort Facilities set out in Article 2 of the Integrated Resort Promotion Bill, Casino Facilities are stipulated as being limited to those businesses who receive, pursuant to a law yet to be implemented, permission from the Casino Administration Committee to develop and operate such facilities within an Integrated Resort Area. Article 4 of the Integrated Resort Promotion Bill also prescribes for law and regulation to be introduced dealing with those who attempt to develop and operate such facilities (including those business affiliated thereto), provide services in connection with use of the facilities, and gaming machine manufacturers, importers and distributors.

At present, what is expected under such laws and regulations with respect to requirements and procedures, and rights, obligations and liabilities is not entirely clear and will be something to monitor closely throughout the year.

This Client Alert is provided for your convenience and does not constitute legal advice. It is prepared for the general information of our clients and other interested persons. This Client Alert should not be acted upon in any specific situation without appropriate legal advice and it may include links to websites other than the White & Case website.

White & Case has no responsibility for any websites other than its own and does not endorse the information, content, presentation or accuracy, or make any warranty, express or implied, regarding any other website.

This Client Alert is protected by copyright. Material appearing herein may be reproduced or translated with appropriate credit.