

## JAPANESE CASINOS ARE ON THE CARDS

The Integrated Resort Act of Japan (**IR Act**) - which legalises casino gambling in designated integrated resort areas (**IR Areas**) - was passed by the Diet on 20 July 2018. The IR Act will present great opportunities for developers, operators, hoteliers and financiers, among others, as well as the wider Japanese economy. Market participants should note however that the IR Act only provides a framework and not all of the specifics for operating an integrated resort in Japan. These matters will be dealt with in detailed regulations to be published by the central government (including through the Casino Management Committee) and as part of the bidding procedures to be determined by local governments.

### Introduction

Casino gambling is currently banned in Japan. The IR Act will legalise casino gambling conducted in IR Areas, which will be highly regulated. Integrated resorts (**Integrated Resorts** or **IR**) should (as is the case in the Singapore and Macau models) consist of not only gaming facilities, but also hotels, convention centres and other resort and leisure facilities. The Japanese government continues to view the MICE (Meeting, Incentive Travel, Convention and Exhibition/Event) business as promoting domestic tourism (and longer stays) to a far greater extent than a focus solely on gaming would do.

### Key Features of Integrated Resorts and Casinos

Key features of Integrated Resorts and casinos included in IR are set out in the table below.

As various social impact concerns, such as problem gambling, have been raised in respect of casinos at a legislative level, intensive discussions have taken place between political parties on the composition of the casino portion of Integrated Resorts, including the size of casino areas. The ruling parties have accordingly agreed that the casino area in an Integrated Resort must be limited to 3 per cent of the size of the entire IR facility. It is worth noting that the restriction here is not by reference to a cap on casino area in square metres; and that the IR Act itself does not set out a specific size limit.

### Key issues

- The IR Act is a major step forward in implementing casino gambling in Japan. Key features of Integrated Resorts and Casinos (including licence duration, casino size, casino levies and visitation limits and entry fees) are set out below, along with details of the IR Area selection process, timeline and regulation of related entities.
- Market participants should note this is the first step - detailed regulations on integrated resort operation will be published separately by the central government.

<b>Integrated Resorts and IR Areas</b>	
Number of IR Areas	Up to 3 IR Areas at first
Required Facilities	(i) Conference hall in which international conferences can be held (ii) Exhibition site which is suitable for global level exhibitions and fairs (iii) Theatre that will hold shows and events relating to Japanese history, culture and art which promote sightseeing in Japan (iv) Travel facilitation office, which will provide information on sightseeing in Japan and one-stop travel services (v) Hotel accommodation facilities <sup>1</sup>
Supervising Authority	The Ministry of Land, Infrastructure and Transportation ( <b>MLIT</b> )
Eligible Applicants	Prefectures or certain large cities
Duration of IR Areas	10 years with renewal every 5 years
<b>Casinos</b>	
Size of Casino Areas	3 per cent of the size of the entire IR facility
Number of Casinos	One casino per IR Area
Supervising Authority	Casino Management Committee ( <b>CMC</b> ) to be set up by the Cabinet Office
Casino Operator	An IR operator with a casino licence granted by the CMC can operate a casino. Such IR operator cannot delegate casino operations to another party.
Duration of Licence	3 years with renewal every 3 years
Casino Levy	(i) 30 per cent of gross gaming revenue (GGR) (ii) Part of the operational costs of the CMC (amount to be confirmed)
Entry Restrictions (Frequency of Entry)	(i) Japanese citizens and residents of Japan (collectively, <b>Japanese Citizens/Residents</b> ): up to (a) 3 times in 7 consecutive days and (b) 10 times in 28 consecutive days (ii) Others: None
Entrance Fee	(i) Japanese Citizens/Residents: JPY6,000 per admission (24 hours) (no annual admission fees) (ii) Others: None
Personal Identification	(i) Japanese residents: Individual Number Cards (ii) Tourists: Passports or other public identification documents

<sup>1</sup> There is no obligation on an IR operator to have a casino area as part of the IR.

During the explanatory sessions, the Japanese government has confirmed that only the casino area exclusively used for casino gaming purposes will be limited in terms of size, whilst the size of the total casino area (i.e. the area where entrance restrictions apply) will not be limited. This will allow operators to include extensive ancillary facilities (e.g. F&B outlets) within the casino area itself to attract and increase gaming patronage. Regulations to be released in due course by the governmental authorities will set out the casino gaming area size limit in more detail and provide the method of calculation.

Another issue discussed at length politically has been entry restrictions (including the amount of entry fees) for Japanese Citizens/Residents. In order to mitigate gambling addiction concerns, relatively stringent entry restrictions have been imposed on Japanese Citizens/Residents. One entry will cover 24 hours, is limited to 3 times in a consecutive 7-day period (and 10 times in a consecutive 28-day period) and the number of entries will be aggregated for a Japanese Citizen/Resident in respect of his/her entry to all casino areas in Japan.

There is no specification in the IR Act on precisely where in Japan the IR Areas will be located or the order in which the first three IR Areas will be set up (i.e. concurrently or sequentially). The IR Area selection process and our observations on the order are discussed further below.

The IR Act also sets out the financial activities that may be conducted by an IR operator without obtaining a further financial licence. Such activities include fund transfers, fund deposits and money lending in relation to its casino operations.

At the discussion stage, the government expressed that it would not allow junket activities due to concerns regarding the potential negative social and other effects caused by the involvement of junkets. Certain regulations included in the IR Act deal with this issue (e.g. no delegation of casino operations) and it is also anticipated that further rules on junket activities will be included in the CMC regulations.

## **IR Area Selection Process**

IR Areas will be selected through a two-step process:

- (i) the local government will select a private company (likely formed by a consortium of private entities) as a potential IR operator; and
- (ii) MLIT will approve an IR Area based on the application made by the local government together with the selected potential IR operator.

MLIT will first prepare a Fundamental Policy, which is expected to set out the framework for the above procedures. Each local government which intends to develop an IR Area will then release a Basic Implementation Policy summarising the bidding process for a potential IR operator for such local government, following which it will release the relevant bid documents, pursuant to which private companies will submit their proposals.

Once a potential IR operator is selected by the local government through the bidding process, the local government and such potential IR operator will prepare an Area Development Plan (including a Master Business Plan) and submit the same to MLIT for its consideration. In order to submit an application to MLIT, the local government must obtain a resolution of the local assembly

(at the Prefectural level if the applicant is a Prefecture, or the city level if the applicant is a large city). Such resolution will also be required when IR Area approval is renewed.

MLIT will approve up to three IR Areas under the IR Act. Once an IR Area is approved, the relevant local government will enter into an Implementation Agreement with the IR operator. The Implementation Agreement will be subject to MLIT's approval.

The number of IR Areas will be reviewed 7 years after the approval of the initial IR Areas. Although the number of IR Areas could increase in the future, given the limited number of IR Areas, initially, we expect fierce competition among local governments to be allocated an IR Area. Various local governments, including Tomakomai City in Hokkaido, Osaka City, Wakayama Prefecture and Sasebo City in Nagasaki, have publicly expressed their intention to apply for an IR Area.

## **Timeline**

Although no formal timeline is set out in the IR Act, it is expected that the establishment of IR Areas will be one of the economic stimulus programmes to be put in place after the 2020 Tokyo Olympic Games. It has been reported (though not yet officially confirmed) that the approval process for IR Areas will take place on a rolling basis and all three IR Areas will not be approved at once. If the IR Area selection process is made on a rolling basis, it is anticipated that the first IR Area will be selected in 2021.

With regard to when the IR Act will become effective, provisions relating to the CMC will come into effect within 1 year and 6 months of the publication date of the IR Act (i.e. by January 2020 assuming that the IR Act is published by the end of July 2018), provisions relating to the Fundamental Policy will come into effect within 2 years of the publication date (i.e. by July 2020) and the entire IR Act will come into effect within 3 years of the publication date (i.e. by July 2021).

## **Regulation on Related Entities**

As well as IR operators, related entities are also regulated:

- Shareholders which own 5 per cent or more of the voting rights in an IR operator must obtain the CMC's approval.
- Owners and land use right holders of IR sites and IR facilities/buildings which are leased to IR operators are also subject to the CMC licensing requirements.
- Casino equipment manufacturers, importers, sellers and those engaged in repair are also subject to the CMC licensing requirements.
- Casino equipment must be certified by the CMC or its designated private investigation agencies.

## **Detailed Regulations Will Follow**

Detailed regulations will be provided by an enforcement ordinance and enforcement order to be drafted by the cabinet office and MLIT, respectively. With regard to casino regulations, the CMC is the designated supervising authority and will enact detailed rules and regulations in respect of casino operations.

The draft ordinance, order and CMC regulations will be subject to a public review process before coming into effect. To address various concerns expressed during the legislative process, the government declared that it would regulate casinos as strictly as possible. Potential IR operators and other market participants would be well advised to review the draft regulations on publication and make comments (as part of the review process) on the same to ensure their operational practicability.

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