

Client Alert

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Japan's Integrated Resorts / Casinos Client Alert Vol.1: Japan's parliament approves the Integrated Resorts Promotion Act

In This Issue:

Introduction

The legislative process

What is the IR Promotion
Act's purpose?

Where will the integrated
resorts be located?

When will the doors of
Japan's first integrated
resort open?

Who can participate?

How are participants
selected?

Two new regulatory bodies
to be formed

What next?

Introduction

On December 15, 2016, after many years of planning and discussions, the *Act on the Promotion of the Development of Integrated Resort Areas (Tokutei Fukugo Kanko Shisetsukuiki no Seibi no Suishin ni Kansuru Houritsu)* (the "**IR Promotion Act**") was finally approved with some last minute modifications by Japan's parliament (the "**Diet**").

The IR Promotion Act for the first time formally lifts the ban on casinos and contemplates allowing the private sector to develop and operate casinos as an integral part of larger integrated resorts. The modified IR Promotion Act includes measures against gambling addiction and a provision requiring a review of the legislation within five years of coming into effect. The IR Promotion Act will promote the development of new types of leisure and business resorts in Japan which will certainly have an impact on a variety of legal issues involving, gaming (including licensing thereof) real estate, corporate, tax, regulatory, banking and other issues.

This Client Alert Vol.1 is the first of a series of Client Alerts to follow which will address various legal issues we consider most relevant under the IR Promotion Act just enacted and the IR Implementation Act to be enacted (see below).

The legislative process

The IR Promotion Act is the first step in a two-step legislative process before integrated resorts with casinos can be built and operated. The IR Promotion Act authorizes integrated resorts with casinos and establishes the framework within which a more detailed statutory and regulatory regime is expected to be drawn up and approved in approximately one year.

The implementation laws (the "**IR Implementation Act**")¹ will contain the specific details for the development and operation of such integrated resorts and related matters. For example, the IR Implementation Act will comprise a suite of new laws and regulations including licensing requirements, gambling fairness standards, rules governing casino chips and other monetary substitutes used at casino facilities, legislation pertaining to "anti-social forces" (i.e. organized crime), advertising regulations, rules to protect minors, plans to prevent and address gambling addictions, and related matters.

In addition, we expect a collection of related legislative amendments to existing Japanese laws (potentially including Japan's Criminal Code, Anti-Money Laundering Act (*Hanzai ni yoru Shueki no Itenboushi ni Kansuru Houritsu*), and relevant financial regulations) will be enacted to complement the IR Implementation Act.

¹ Article 5 of the IR Promotion Act.



What is the IR Promotion Act's purpose?

The purpose of the IR Promotion Act is to approve the comprehensive development of integrated resorts, the expectation being that these resorts will contribute to inbound tourism and conference businesses in a positive way². The initial integrated resorts are expected to be a few large-scale internationally competitive integrated resorts in the largest cities. Similar to the Singapore model, the casinos at the integrated resorts are expected to represent a relatively small portion of the integrated resorts which will be within a larger ecosystem of hotels, convention and exhibition centers, shopping centers, recreation facilities, and other tourist attractions³.

The IR Promotion Act provides for integrated resorts and does not contemplate stand-alone casinos such as in Macau and Las Vegas. Singapore is the model that Japan intends to follow, most commentators agree.

Where will the integrated resorts be located?

One of the key next steps in the development of integrated resorts in Japan is site selection. At this stage, details of the process and candidate locations are still sketchy, but most observers anticipate that there will likely be a limited round of initial sites (market commentators anticipate two or three) and additional sites will be added later during subsequent rounds. The locations for the integrated resort sites will be determined by the national government following evaluation of local government applications --- the specific application and evaluation rules will be contained in the IR Implementation Act⁴. The process for initial local government evaluations prior to national government determination was adopted in order to allow the local governments to address local needs and concerns.

When will the doors of Japan's first integrated resort open?

Though it is still too early in the process to predict the timing of the opening of Japan's first integrated resort with any certainty, if the Singapore model is any guide, the earliest opening date for Japan's first integrated resort will probably be around 2022, given the process requiring the Diet to pass the IR Implementation Act, interested local governments to apply for site designation, the national government to formally designate the site, the local government to formally designate the operator, and the time required to complete construction of the integrated resort.

Who can participate?

The IR Promotion Act specifically contemplates that the private sector will establish and operate the integrated resorts, which are to be of a high internationally competitive standard. In return, the national and local governments may collect levies from such private sector operators and charge fees to users⁵.

The forthcoming IR Implementation Act will contain more details around licensing and approval requirements. We anticipate that for practical and

² Article 1 of the IR Promotion Act.

³ Article 2.1 of the IR Promotion Act

⁴ Article 2.2 of the IR Promotion Act

⁵ Article 12 and 13 of the IR Promotion Act

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commercial reasons international casino operators will form joint ventures with Japanese companies.

How are participants selected?

Based on the provisions in the IR Promotion Act, we anticipate the selection of participants will be a two-stage process. In the interim, we understand that each local government would enter into a collaborative arrangement with their preferred operator in advance of site selection⁶ in order to demonstrate project feasibility to the national government:

Stage One: Local governments will select the sites where they propose to undertake integrated resort development and submit their selection to the national government for approval. The national government will review the local government site selections/applications and determine the initial sites to be developed as integrated resorts pursuant to the IR Implementation Act⁷.

Stage Two: Local governments will invite project tenders from private bidders. The winning bid will be reviewed through the licensing process by the national government and the Casino Management Committee (see below).

The IR Promotion Act includes certain guidance to bidders, for example that integrated resorts should "take advantage of local characteristics for internationally competitive resorts"⁸. We expect prudent bidders will carefully review the language of the IR Promotion Act and take this and similar guidance into consideration when preparing integrated resort proposals.

We understand that potential bidders/investors and local governments have already started informal discussions and while ongoing discussions will most likely be mutually beneficial, the parties will need to be mindful of the likely requirement for transparency in respect of the formal bidding process to be adopted under the IR Implementation Act.

Two new regulatory bodies to be formed

Two new key regulatory bodies will be created, along with the secretariat, pursuant to the IR Promotion Act.

1. A Headquarters for Promoting the Development of Integrated Resorts (*Tokutei Fukugo Kanko Shisetsukuiki Seibi Suishin Honbu*)⁹ will be established. This body will be headed by the Prime Minister and will provide support for the integrated resorts initiative, as well as oversight and direction to the initiative's strategy and implementation.
2. A Casino Management Committee (*Kajino Kanri linkai*)¹⁰ will be created to regulate the casino specific elements of the integrated resorts, including casino developers and operators, and even casino-related equipment suppliers and service providers.

⁶ The order of the relevant procedures is not drafted completely clearly.

⁷ Article 2.1 of the IR Promotion Act

⁸ Article 6 of the IR Promotion Act

⁹ Article 14 of the IR Promotion Act

¹⁰ Articles 9 and 11 of the IR Promotion Act



What next?

As noted in the introduction to this Client Alert, the national government is expected to draw up and approve the IR Implementation Act over the next 12 months.

During this period, stakeholders should monitor the progress of the IR Implementation Act process. Potential concerns which legislators will seek to address will include issues relating to organized crime and gambling addiction and other social ills associated with casinos. The IR Promotion Act requires that the IR Implementation Act should include specific restrictions on entry to casinos to address gambling addiction. These restrictions are expected to include measures similar to those adopted in Singapore such as special entry fees imposed on Japanese nationals and entry restriction based on voluntary individual request or request by a family member.

Please stay tuned for more Client Alerts to follow with more information on the IR Promotion Act, the IR Implementation Act and related issues.

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