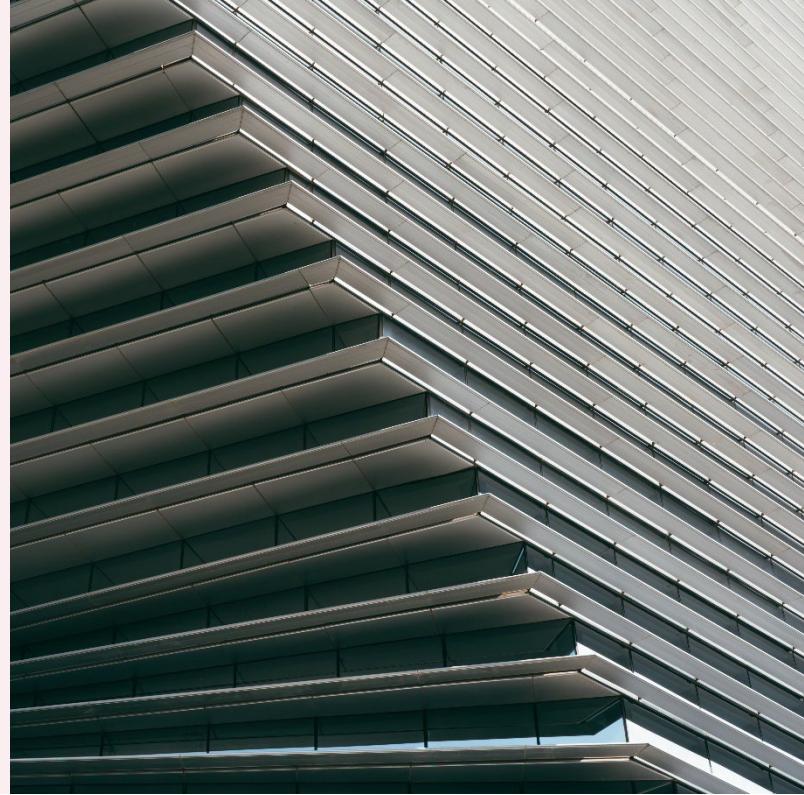


Proposed amendments to Japan's Inward Direct Investment Screening Regime

February 2026



As five years have now elapsed since the implementation of the 2020 amendments to the Foreign Exchange and Foreign Trade Act (**FEFTA**), the Japanese government has decided to review the inward direct investment screening regime. On January 7, 2026, the Ministry of Finance published the "Report on the Appropriate Framework for the Inward Direct Investment Screening Regime, etc." (the **Report**).

From the perspective of foreign investors, the key points of the Report are as follows:

Narrowing the Scope of Transactions Subject to Prior Notification

Following the 2020 amendments, which significantly expanded the scope of transactions subject to prior notification, the number of prior notifications has increased substantially. In response, the Report proposes a review aimed at excluding low-risk transactions from the prior notification requirement. Specifically, the following amendments are under consideration:

1. Under the current regime, a shareholder's consent to the appointment of directors can be subject to prior notification. However, where such consent relates to the reappointment of the same director and there has been no material change in circumstances, such consent would no longer require prior notification.
2. With respect to "information and communications technology-related sectors," prior notification would be limited to cases where such notification is genuinely necessary, for example from the perspective of cybersecurity.
3. More generally, the authorities will verify whether prior notification requirements currently apply to categories of investors or types of conduct that present a low risk to national security, and will seek to rationalise the regime accordingly.
4. Conversely, the authorities will also examine whether investments in Japanese companies that possess important technologies or sensitive information are appropriately captured by the prior notification framework.

In summary, the proposed amendments are intended to limit the scope of conduct and sectors subject to prior notification. From the standpoint of foreign investors, it is expected to reduce excessive notification requirements and can generally be regarded as a positive development.

Clarification of Measures to Mitigate National Security Risks

Under the current regime, approval of an inward direct investment may be conditioned on the implementation of measures to mitigate risks to national security (**Remedies**). The Report proposes to clarify and refine the framework for such Remedies as follows:

1. The notification form will be amended to include a section on proposed Remedies, and foreign investors will be required to notify such measures where they are necessary.
2. Foreign investors will be permitted to submit notifications adding or modifying proposed Remedies during the review process. In order to avoid unnecessarily prolonging the review period, the investment prohibition period will continue to be calculated from the date on which the initial notification is accepted. However, where an additional or amended notification is submitted shortly before the expiry of the investment prohibition period, it would be appropriate to extend that period by approximately 14 days to allow for review.
3. It will be clarified that the Minister of Finance and the competent line minister may issue recommendations or orders not only to change or discontinue the investment, but also to require the implementation of specific Remedies.
4. Where a foreign investor seeks to change previously notified Remedies after the investment has been implemented, the investor must notify such changes in advance. The authorities will then conduct a renewed review and may, if necessary, recommend or order the discontinuation of the proposed changes or the implementation of new Remedies.
5. Where a foreign investor fails to implement the notified Remedies, the authorities may order the disposal of shares or other interests acquired through the investment.
6. To enhance predictability for foreign investors, the authorities will set out, in guidelines or similar instruments, categories and illustrative examples of Remedies that should be included in notifications.

From a foreign investor's perspective, it is a welcome clarification that proposing Remedies will no longer require withdrawal and resubmission of the notification, thereby avoiding a reset of the review period. However, investors should be mindful that compliance with Remedies will be monitored after closing, and that failure to implement notified Remedies may result in orders to dispose of shares or other interests.

Extension of Prior Notification Requirements to Indirect Investments in Japanese Companies

Under the current regime, changes to the ultimate parent company of a notifier (the entity that files a notice to the authorities) are generally not subject to notification or review. The Report proposes to address this issue

by requiring prior notification in cases where a foreign investor indirectly acquires voting rights or other interests in a Japanese company by acquiring control over a foreign entity that directly holds such interests. Specifically, the FEFTA is expected to be amended as follows:

1. The definition of "inward direct investment" will be expanded to include acts such as: (i) an indirect acquirer obtaining 50% or more of the voting rights in a direct holder; or (ii) affiliates of the indirect acquirer appointing a majority of the directors of the direct holder.
2. As a general rule, where a direct holder owns 1% or more of the voting rights or equivalent interests in a Japanese company (which is subject to prior notification under the current regime), the indirect acquirer will be required to submit a prior notification. However, where the indirect acquirer is a foreign investor eligible for exemption from the prior notification regime, no procedure will be required if the voting rights in the Japanese company held by the direct holder are less than 50%.
3. In order to ensure that failures to make required notifications in connection with indirect acquisitions are properly detected, direct holders will be required to submit ex post reports upon changes to their parent companies. In addition, where risks to national security or public order cannot be adequately addressed by issuing orders to the indirect acquirer, the authorities will be permitted to issue necessary orders to the direct holder.

From the perspective of foreign investors, the distinction between direct and indirect investment in Japanese companies is likely to become less meaningful, as indirect investments may also trigger prior notification requirements. That said, where exemption from the prior notification regime is available - such as in the case of foreign financial institutions, including investment management companies subject to regulatory supervision in their home jurisdictions - prior notification is generally expected to be unnecessary, except in cases involving indirect acquisition of a majority interest.

Expected Timeline

The Report was issued on January 7, 2026, and the Ministry of Finance has indicated that it intends to submit a bill to amend the FEFTA based on the Report during the current ordinary session of the National Diet.

Accordingly, the FEFTA amendment bill is expected to be submitted in the first half of 2026, during the ordinary Diet session (typically held from late January through June). Following submission, the bill will be subject to deliberation in the Diet and possible amendment, and it may be enacted within 2026. Legislation relating to national security tends to be accorded relatively high priority, increasing the likelihood of enactment within 2026. However, given that the proposed reforms involve significant changes to the existing framework, substantial work will be required to prepare cabinet orders, ministerial ordinances, and inter-ministerial coordination. As a result, the new regime is likely to come into force in or after 2027.



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