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BRIEFING

Japan finalises implementing rules for FDI regulation reforms

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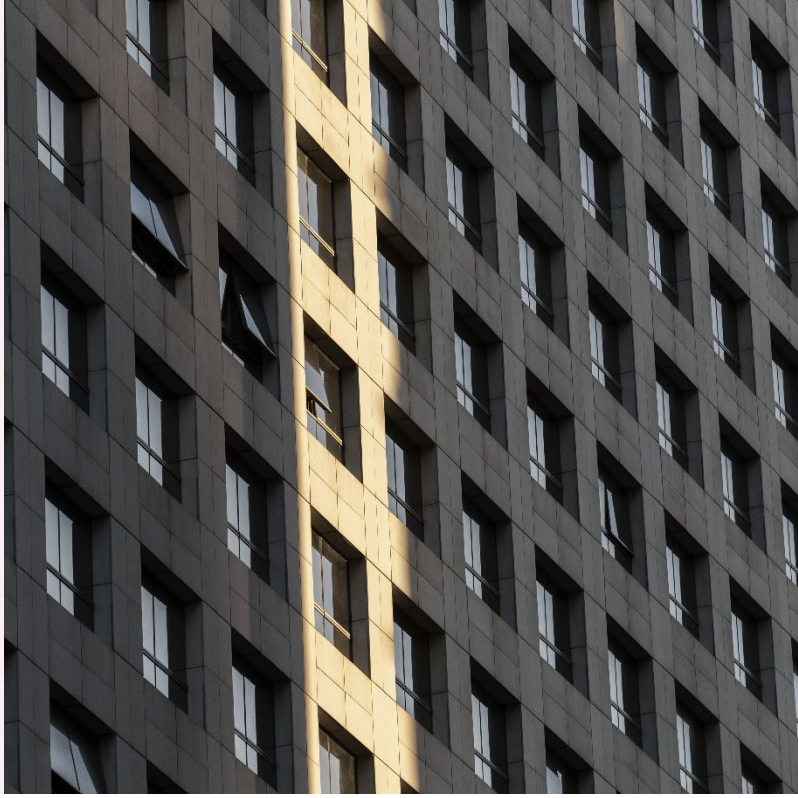

Japan has finalised a significant expansion of its foreign direct investment screening regime under the Foreign Exchange and Foreign Trade Act (FEFTA). The reforms introduce notification requirements for certain indirect investments involving the acquisition of control (at least 50% of voting rights or a majority of board seats) of an overseas company that holds shares or voting rights in a Japanese company in a designated sector. For general investors, the applicable threshold is an indirect holding of 50% or more of the shares or voting rights in the Japanese company. For investors ineligible for the prior-notification exemption regime, including certain foreign governments and state-owned enterprises, the threshold is 1% if the Japanese company is listed, with no minimum threshold if it is unlisted.

The reforms also empower the Japanese authorities to intervene in acquisitions of 10% or more of the shares or voting rights in a company in non-designated sectors by investors ineligible for the prior-notification exemption regime for up to five years after investment, revise designated-sector coverage, and broaden the definition of foreign investors.

Most reforms will take effect on 4 January 2027, with the new rules on indirect acquisitions applying to transactions closing on or after 3 February 2027.

This briefing updates our May briefing[1] on the draft rules and outlines the final rules and their practical implications for investors.

Key issues

1. Indirect acquisitions are brought within scope
2. Authorities gain new post-closing powers for non-designated sectors
3. Domestic investors controlled by exemption-ineligible investors may be deemed foreign investors
4. Establishment of the Japan Foreign Investment Committee (JFIC)

[1] Related Clifford Chance Client Briefing: Japan proposes "J-CFIUS" reforms under FEFTA (May 2026)

5 Changes in designated business sectors

6 Risk mitigation measures become part of the filing framework

From policy proposal to finalised regime

As reported in our earlier briefings, the Cabinet approved and submitted a bill to the Diet on 17 March 2026 to amend FEFTA. The bill was enacted on 29 May 2026 and promulgated on 5 June 2026. The provision to strengthen inter-ministerial coordination took immediate effect upon promulgation, and on that basis, the Ministry of Finance (MOF) and the National Security Secretariat of the Cabinet Office jointly established the Japan Foreign Investment Committee (JFIC), together with the Ministry of Foreign Affairs (MOFA), the Ministry of Economy, Trade and Industry (METI) and the Ministry of Defense (MOD) as core members, with other ministries participating as necessary.

To implement the remaining reforms, the MOF published draft cabinet orders, ministerial orders and public notices for public consultation between 3 July and 2 August 2026. On 16 September 2026, the MOF published the results of that consultation and promulgated the finalised subordinate legislation, together with its published responses to comments and a summary of the changes made to the consultation drafts. The remaining substantive reforms are scheduled to take effect from 4 January 2027.

Key points for investors

The reforms implement six key changes which investors should take into account in their transaction planning.

1. Indirect acquisitions are brought within scope

   Japan's FDI regime will now cover certain indirect acquisitions. A foreign investor acquiring control of an overseas company that already holds shares or voting rights in a Japanese company in a designated sector may need to file a prior notification. For this purpose, control means 50% or more of the voting rights or a majority of the board seats in the overseas company. This change is particularly relevant to foreign-to-foreign M&A transactions and acquisitions of offshore holding companies.

   The prior-notification exemption regime allows investors to make investments without filing a prior notification, provided they meet certain exemption conditions. The final rules apply different thresholds depending on the investor's risk profile:

   - For general investors, prior notification is generally required where the acquisition results in an indirect holding of 50% or more of the shares or voting rights in the Japanese company.
   - For investors ineligible for the prior-notification exemption regime (Exemption-Ineligible Investors), including certain foreign governments and state-owned enterprises, substantially lower

shareholding thresholds apply: 1% for listed companies and no minimum threshold for unlisted companies.

As a result, the amendment will require FEFTA implications to be considered at an earlier stage of global transactions, particularly where a Japanese subsidiary or shareholding might previously have been regarded as ancillary to the overall transaction. These rules will apply to transactions closing on or after 3 February 2027.

2. Authorities gain new post-closing powers for non-designated sectors

   The amendments introduce a new monitoring and intervention tool for investments in non-designated sectors. Under the current regime, an acquisition of 10% or more of the shares or voting rights in a company in non-designated sectors generally requires only a post-investment report and the authorities have limited tools to intervene after a transaction has closed.

   Under the new rules, where national security concerns arise, the authorities may require an Exemption-Ineligible Investor to submit additional reports for up to five years after completing the investment. The authorities may then issue a recommendation or order, including an order to dispose of shares, if necessary.

3. Domestic investors controlled by Exemption-Ineligible Investors may be deemed foreign investors

   The reforms also bring certain domestic investment activity influenced by Exemption-Ineligible Investors within the scope of the FDI regime. A Japanese company or resident may be treated as a foreign investor where it undertakes investment activity for the benefit of, and under the control or influence of, a foreign government or another investor that cannot rely on the prior-notification exemption. The change closes a gap in the existing regime, under which certain structures could escape scrutiny because they did not meet the 50% voting-rights threshold for foreign investor status.

4. Establishment of the Japan Foreign Investment Committee (JFIC)

   The reforms also place inter-ministerial coordination on a statutory footing. The MOF and the competent business minister must now seek the views of relevant administrative authorities where necessary from a national security perspective. This provides a statutory basis for the Japan Foreign Investment Committee (JFIC), which brings together relevant ministries, including MOFA, METI and MOD. The JFIC is intended to review certain important cases, to be identified based on various factors such as (i) the business sectors and technologies of the Japanese investee company (e.g. core business sectors), (ii) the risk profile of foreign investors (e.g. ties to a foreign government) and (iii) the nature of the foreign investment (e.g. the level of voting rights to be acquired).

5. Changes in designated business sectors

   The amendments also revise the designated and core sector framework. Key changes include:

   (a) a narrower, enumerated list of software services subject to prior notification;

(b) treating holders of export-controlled technologies as core-sector entities, regardless of their business sector; and

(c) expanding the sector lists to include magnetic sensor and ship hull manufacturing, large-scale electricity and gas retailing, and the manufacture of essential medicines.

6. Risk mitigation measures become part of the filing framework

Investors will now be required to identify relevant mitigation measures in the prior notification form. If an investor later wishes to modify or discontinue reported measures, whether before or after closing, a change notification must be filed and will be subject to review by the authorities.

The authorities' recommendations or orders may also expressly impose mitigation measures. The MOF has indicated that it will publish guidance on common mitigation measures, including undertakings to exercise voting rights independently of foreign government influence, refrain from proposing the disposal of sensitive businesses, and refrain from accessing non-public technical information.

This change means that mitigation strategy should be considered early in transaction planning, rather than after questions are raised by the authorities.

What to watch out for

Investors should assess the implications of the reforms taking effect on 4 January 2027 early in transaction planning. In particular, investors considering foreign-to-foreign transactions or other indirect acquisitions closing on or after 3 February 2027 should assess the new indirect-acquisition rules, including the lower shareholding thresholds applicable to Exemption-Ineligible Investors: 1% for listed companies and no minimum threshold for unlisted companies. Investors should also assess exemption eligibility and build filing timing and potential mitigation measures into transaction planning and closing conditions.

Comparison Table

Topic	Prior to the 2026 Reform	Framework under the 2026 Reform
Indirect investments	No FEFTA filing is required where a foreign investor acquires control of an overseas company that itself holds shares in a Japanese company; the regime focuses on direct acquisitions of Japanese targets.	Indirect investments generally require prior notification where a foreign investor acquires control (at least 50% of voting rights or a majority of board seats) of an overseas company holding an interest in a Japanese company in a designated sector. The shareholding threshold is 50% for general investors; for investors ineligible for the prior-notification exemption, it is 1% for listed companies, with no minimum for unlisted companies.
Post-closing intervention	Primarily focused on review for transactions subject to prior notification.	For acquisitions of 10% or more of the shares or voting rights in a company in non-designated sectors by Exemption-Ineligible Investors, where national security concerns arise, the authorities may require additional reports for up to five years after the investment and may subsequently issue a recommendation or order, including an order to dispose of shares.
Acting-through / nominee structures	Acting-through or nominee structures are less expressly highlighted in the current public description of the regime.	A Japanese company or resident that conducts investment activity for the benefit of, and under the control or influence of, an exemption-ineligible foreign investor may be treated as a deemed foreign investor and become subject to prior notification.
Institutional set-up	Review is conducted principally by the MOF and the relevant competent ministry under the existing FEFTA framework.	The MOF and the competent business minister must seek the views of relevant administrative authorities where necessary from a national security perspective. Certain important cases will be reviewed by the JFIC. The cases to be reviewed by the JFIC will be identified based on factors including the Japanese investee company's business sectors and technologies (for example, core business sectors), the foreign investor's risk profile (for example, ties to a foreign government), and the nature of the investment (for example, the level of voting rights to be acquired).
Scope of designated business sectors	The scope of designated business sectors is broad regarding software services.	A narrower, enumerated list of software services is subject to prior notification. In addition, holders of export-controlled technologies will be designated as core-sector entities, regardless of their business sectors.

Topic	Prior to the 2026 Reform	Framework under the 2026 Reform
		Certain business sectors are added to the designated business sectors, such as magnetic sensor and ship hull manufacturing, large-scale electricity and gas retailing, and the manufacture of essential medicines.
Mitigation measures	Mitigation may be discussed in practice, but the current framework is less expressly structured around mandatory disclosure of mitigation in the filing itself.	Risk mitigation measures must be identified in the prior notification form. Any modification or discontinuance of reported risk mitigation measures, before or after closing, requires a notification of change, which is itself reviewed. Recommendations and orders by the authorities may explicitly require mitigation measures.



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