Draft Rules and Regulations of the Foreign Exchange and Foreign Trade Act (Updated on March 25, 2020)

The following modifications have been made to this document published on March 14:
- Addition of page 12 (PN-SP and Post-investment Report after Exemption) and page 13 (IT System Adjustments for PN-SP under the New Rules); and
- Revisions in pages 4, 15 and 16.
The Objective of the Amendment to the Foreign Exchange and Foreign Trade Act

System before the amendment

- The basic principle: free investment
- Certain types of foreign direct investment (FDI) are required to post-investment reporting, whereas FDI to certain designated business sectors requires prior-notification for screening

The need to further promote FDI conducive to sound economic growth

Global trend to strengthen measures for FDI screening from the national security viewpoint

- Adoption of FIRRMA in the United States (Aug 2018)
- Adoption of the new EU regulation (Mar 2019)

The amendment aims to:
- Further promote foreign direct investment (FDI) conducive to sound economic growth; and
- Ensure minimal review of FDI that could pose risks to national security.
Highlights of the Amendment

Further promote FDI conducive to sound economic growth

1. Introduction of exemption scheme for Prior-notification for Stock Purchases (PN-SP)
   - Investors who comply with certain conditions (See Page 4) are exempted from PN-SP requirement.
   - Investor’s compliance with the conditions for exemption is secured through post-investment report requirement and, if necessary, government actions to issue recommendations/orders.

Ensure minimal review of FDI that could pose risks to national security

2. Reviewing the scope of prior-notification
   - Threshold for PN-SP with regard to the acquisition of listed company’s stocks will be lowered from 10% to 1% (Under the Japanese Company Act, shareholders who own 1% or more voting rights are entitled to propose an agenda to general shareholders meeting.)
   - Prior notification will also be required for the following actions:
     - becoming board members of the investee company
     - proposing transfer or disposition of investee company’s business activities in the designated business sectors

3. Enhancing information exchange among relevant domestic authorities and with foreign counterparties
Exemption Scheme for Prior-notification of stock Purchases (PN-SP)

**Blanket exemption**
- Foreign financial institutions
- General investors including SWFs and public pension funds accredited by the authorities

**Regular exemption**
- Designated business sectors with material implications for national security ("core sectors")
- Other designated business sectors

**Exemption non-applicable**
- Investors with a record of sanction due to violation of the FEFTA
- State-owned enterprises (except those who are accredited by the authorities)
- Other designated business sectors

- Designated business sectors Core sectors
- Other designated business sectors Core sectors

*See Page 4

Exemption Conditions on Core Sectors’ Business Activities (See Page 4)

100% 100% 100%
10% 10% 10%
1% 1% 1%
Exemption Scheme for Prior-notification for Stock Purchases (PN-SP)

<table>
<thead>
<tr>
<th>Types of investors</th>
<th>Scope</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Foreign financial institutions</strong> (<em>See Page 6</em>)</td>
<td>&lt;“Blanket exemption”&gt;</td>
</tr>
<tr>
<td></td>
<td>• PN-SP will be exempted with no upper limit for investors that comply with the Exemption Conditions (a,b,c)</td>
</tr>
<tr>
<td></td>
<td>• Post-investment report – from 10%</td>
</tr>
<tr>
<td><strong>General investors</strong> (including SWFs and public pension funds accredited by the authorities)</td>
<td>&lt;“Regular exemption”&gt;</td>
</tr>
<tr>
<td></td>
<td>• PN-SP will be exempted with no upper limit for investors that comply with the Exemption Conditions (a,b,c)</td>
</tr>
<tr>
<td></td>
<td>• Post-investment report - from 1%</td>
</tr>
<tr>
<td>• Investors with a record of sanction due to violation of the FEFTA</td>
<td>• PN-SP will be exempted under 10% for investors that also comply with the Exemption Conditions on Core Sectors’ Business Activities (d,e)</td>
</tr>
<tr>
<td>• State-owned enterprises (except those who are accredited by the authorities)</td>
<td>• Post-investment report - from 1%</td>
</tr>
<tr>
<td></td>
<td>• No exemption is applicable.</td>
</tr>
</tbody>
</table>

**Exemption Conditions**

a) Investors or their closely-related persons(*See Page 7) will not become board members of the investee company.

b) Investors will not propose to the general shareholders’ meeting transfer or disposition of investee company’s business activities in the designated business sectors.

c) Investors will not access non-public information(*See Page 8) about the investee company’s technology in relation with business activities in the designated business sectors.

d) Regarding business activities in core sectors, investors will not attend the investee companies’ committees that make important decisions in these activities.

e) Regarding business activities in core sectors, investors will not make proposals, in a written form, to the executive board of the investee companies or board members requiring their responses and/or actions by certain deadlines.
In principle, state-owned enterprises are not eligible for the exemption from the prior-notification of stock-purchases. However, **SWFs that are deemed to pose no risk to national security are eligible for the regular exemption if accredited by the authorities.**

For the accreditation, the Ministry of Finance will review whether:

1. Investment activities of the SWFs are only for economic returns; and
2. Investment decisions by the SWFs are made independently of their governments.

The Ministry of Finance will sign Memorandum of Understanding (MOU) with the SWFs to grant the accreditation.

The decision of an accreditation and signing of MOU will not be made public.

The MOU can set out other issues as necessary.
Definition of “Foreign Financial Institutions” eligible for Blanket Exemption

Foreign financial institutions which are subject to regulations/supervisions under financial regulatory laws in Japan or other jurisdictions are eligible for “blanket exemption”. Such foreign financial institutions are:

- Securities firms
- Banks
- Insurance companies
- Asset management companies
- Trust companies
- Registered corporate-type investment trusts
- High-frequency traders

(Note) As for high-frequency traders, those who are registered with Japan’s Financial Services Agency (FSA) are eligible for “blanket exemption”. Other high-frequency traders are eligible for “regular exemption”.
# Definition of “Closely-related Persons”

<table>
<thead>
<tr>
<th>Scope of “closely-related persons” of a foreign investor</th>
<th>① Nomination is made by the foreign investor itself</th>
<th>② Nomination is made by a third party (including the investee company)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board member of the foreign investor</td>
<td>Employee of the foreign investor</td>
<td>Member of the foreign investor’s committee that has authority on investment decisions</td>
</tr>
<tr>
<td>The foreign investor (if company)</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Its subsidiaries, second-generation subsidiaries, parent companies, or grandparent companies</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Its other family companies such as uncle/aunt companies, cousin companies, brother/sister companies, or nephew/niece companies</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>The foreign investors’ business partners</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Persons who receive substantial amount of financial rewards and/or other assets from the foreign investor</td>
<td>○</td>
<td>×</td>
</tr>
<tr>
<td>Persons who were in the status of the above categories in the previous one year</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Spouse of the foreign investor (if natural person)</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Lineal ascent or descent of the foreign investor (if natural person)</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>Persons (or their closely-related persons) who have agreement with the foreign investor to jointly exercise voting rights</td>
<td>○</td>
<td>○</td>
</tr>
</tbody>
</table>

1/ This includes the case where nomination is made by a third party on behalf of the foreign investor.

2/ On-the-spot nomination at a shareholder’s meeting is not subject to the prior-notification requirement.

3/ Same as the FEFTA’s definition of “closely-related persons” used to calculate the total shares of investment in a single listed company.

4/ Same as the definition under the Tokyo Stock Exchange guidelines of the persons not eligible for becoming an independent board member due to conflicts of interest.

5/ If the foreign investor is a state-owned enterprise, “closely-related persons” include members of the state’s central government, local governments, government agencies, central bank or political parties.
Definition of “Access to Non-public Information about the Investee Company’s Technology”

- Obtaining confidential technology-related information managed by the investee company’s sections that conduct business activities in the designated business sectors\(^1/\)

- Requesting disclosure of confidential technology-related information

- Requesting a change in the investee company’s internal rules on the treatment of confidential technology-related information

\(^1/\) The case where the investee company voluntarily provides such information to the foreign investor does not constitute a breach of this exemption condition.

※The followings do NOT constitute confidential technology-related information:
  - Information about employment terms or remuneration of board members and employees
  - Financial information
Designated Business Sectors

【Japan Standard Industrial Classification published in 2013】
(1465 sectors)

- Weapons
- Aircrafts
- Nuclear facilities
- Space
- Dual-use technologies
- Cybersecurity
- Electricity
- Gas
- Telecommunications
- Water supply
- Railway
- Oil
- Heat supply
- Broadcasting
- Public transportation
- Biological chemicals
- Security services
- Agriculture, Forestry and Fisheries
- Leather manufacture
- Air transportation
- Maritime transportation

【Designated Business Sectors under the FEFTA】
(155 Sectors)

- All of the following sectors
  - Weapons
  - Aircrafts
  - Nuclear facilities
  - Space
  - Dual-use technologies

- Part of the following sectors
  - Cybersecurity
  - Electricity
  - Gas
  - Telecommunications
  - Water supply
  - Railway
  - Oil

After the amendment
【"Core Designated Business Sectors(※)"
- All of the following sectors
  - Weapons
  - Aircrafts
  - Nuclear facilities
  - Space
  - Dual-use technologies

- Part of the following sectors
  - Cybersecurity
  - Electricity
  - Gas
  - Telecommunications
  - Water supply
  - Railway
  - Oil

【"Non-Core Designated Business Sectors"
- Part of the following sectors
  - Cybersecurity
  - Electricity
  - Gas
  - Telecommunications
  - Water supply
  - Railway
  - Oil

- All of the following sectors
  - Heat supply
  - Broadcasting
  - Public transportation
  - Biological chemicals
  - Security services
  - Agriculture, Forestry and Fisheries
  - Leather manufacture
  - Air transportation
  - Maritime transportation

(※) See next page for more details
### Scope of “Core Sectors” in the respective business sectors

<table>
<thead>
<tr>
<th>Areas</th>
<th>Scope is narrowed to those truly necessary for national security</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weapons</td>
<td>All</td>
</tr>
<tr>
<td>Aircrafts</td>
<td>All</td>
</tr>
<tr>
<td>Space</td>
<td>All</td>
</tr>
<tr>
<td>Nuclear facilities</td>
<td>All</td>
</tr>
<tr>
<td>Dual-use technologies</td>
<td>All</td>
</tr>
<tr>
<td>Cybersecurity</td>
<td>• Cybersecurity-related service (e.g. network security monitoring, software)</td>
</tr>
<tr>
<td></td>
<td>• Service providers of the program designed for critical infrastructures</td>
</tr>
<tr>
<td>Electricity</td>
<td>&lt;Electricity Business Act&gt;</td>
</tr>
<tr>
<td></td>
<td>• General Electricity Transmission and Distribution Utility</td>
</tr>
<tr>
<td></td>
<td>• Electricity Transmission Utility</td>
</tr>
<tr>
<td></td>
<td>&lt;Armed Attack Situations Response Act&gt;</td>
</tr>
<tr>
<td></td>
<td>• Electricity Generation Utility companies that own a power plant with maximum generation capacity of 50,000KW or more</td>
</tr>
<tr>
<td>Gas</td>
<td>&lt;Gas Business Act&gt;</td>
</tr>
<tr>
<td></td>
<td>• General Gas/Specified Gas Pipeline Service Providers</td>
</tr>
<tr>
<td></td>
<td>• Gas Manufacturers</td>
</tr>
<tr>
<td></td>
<td>&lt;Oil Stockpiling Act&gt;</td>
</tr>
<tr>
<td></td>
<td>• LP Gas companies that own a storage facility or core cylinder filling station</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>&lt;Telecommunications Business Act&gt;</td>
</tr>
<tr>
<td></td>
<td>• Telecommunication carriers that provide service across multiple local municipalities</td>
</tr>
<tr>
<td>Water supply</td>
<td>&lt;Water Works Law&gt;</td>
</tr>
<tr>
<td></td>
<td>• Water Supply companies supplying to more than 50,000 people</td>
</tr>
<tr>
<td></td>
<td>• Bulk Water Supply companies with a capacity of supplying over 25,000㎥ per day</td>
</tr>
<tr>
<td>Railway services</td>
<td>&lt;Armed Attack Situations Response Act&gt;</td>
</tr>
<tr>
<td></td>
<td>• Railway Service companies operating public facilities/infrastructures which are stipulated under the Armed Attack Situations Response Act</td>
</tr>
<tr>
<td>Oil</td>
<td>• Oil Refinery, Oil Storage Business, Crude Petroleum and Natural Gas Production</td>
</tr>
</tbody>
</table>

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For all listed companies in Japan, the authorities will publish by the time of promulgation of the amended FEFTA a list that classifies each company in one of the following categories:

1. Companies subject to post-investment report only (i.e. Non-designated business sectors)
2. Companies conducting business activities only in the designated business sectors other than core sectors
3. Companies conducting business activities in the core sectors

<table>
<thead>
<tr>
<th>Security code</th>
<th>ISIN code</th>
<th>Company name in Japanese</th>
<th>Company name in English</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>****</td>
<td>JP**********</td>
<td>エービーシー</td>
<td>ABC CO.,LTD</td>
<td>1</td>
</tr>
<tr>
<td>****</td>
<td>JP**********</td>
<td>財務商事</td>
<td>ZAIMU,Ltd.</td>
<td>2</td>
</tr>
<tr>
<td>****</td>
<td>JP**********</td>
<td>エックスワイゼット</td>
<td>XYZ Corporation</td>
<td>3</td>
</tr>
</tbody>
</table>
Following clearance of PN-SP by the authorities, foreign investors can purchase stocks up to the notified amount anytime within six months after submission of the PN-SP. Additional PN-SP will not be required for individual transactions up to the notified amount.

Post-investment reports after stock purchases must be submitted within 45 days from the transaction settlement date, extended from 30 days before the amendment.

Post-investment reports after exemption will be required when the investor’s total shareholding reaches:

(i) 1% for the first time\(^1\);
(ii) 3% for the first time\(^1\); and
(iii) 10% or more for each transaction (as has been the case before the amendment).

\(^1\) Post-investment reports will not be required at the second and subsequent transactions reaching 1% or 3%; if shareholding goes down below 1%/3% by stock sales, and subsequently returns to or beyond 1%/3% by stock purchases, post-investment reports will not be required.

Post investment reports must be submitted within 45 days from the transaction settlement date.
The full implementation of the amended Act, Rules and Regulations will commence following the 30-day transitional period after their entry into force. During this transition period, foreign investors can submit PN-SP of 1% or more according to their stock purchase plans after the full implementation.

Following clearance by the authorities, foreign investors can purchase stocks up to the notified amount anytime within six months after submission of the PN-SP. Accordingly, investors can use this period to make adjustments in their IT systems as necessary to comply with the new rules.
Prior-notification for Certain Actions (PN-CA)

- Under the amended Act, the following actions by foreign investors are added to the definition of FDI subject to prior-notification. Foreign investors\(^1\) who intend to take these actions can do so if prior-notification for these certain actions (PN-CA) is filed and cleared:
  
  ✓ Voting at the shareholder’s meeting for nomination of the foreign investor itself or its closely related person as a board member of the investee company;\(^2\) and
  
  ✓ Voting at the shareholder’s meeting for a proposal, made by those foreign investors, to transfer or dispose the investee company’s business activities in the designated business sectors.\(^3\)

- The screening of PN-CA will be conducted only from the objective of the Act, i.e. prevention for national security reasons of leakage of information about critical technologies and disposition of business activities in the designated business sectors.

- If the PN-CA is not of concern from national security perspectives, the authorities will notify the investor of clearance of the screening within five business days.

\(^1\) Foreign investors who used the exemption from PN-SP can also take these actions if they file and clear a PN-CA.

\(^2\) PN-CA is required even if nomination is made by a third party (See Page 7 for more details).

  If the nominee is neither the foreign investor itself nor its closely-related persons, PN-CA is not required.

\(^3\) In case where the proposal is made by other shareholders, PN-CA is not required.
Definition of “Foreign Investor”

- Before the amendment, “foreign investor” includes companies located in Japan with 50% or more ownership of foreign investors, as well as direct subsidiaries of such companies.

- Under the amended rule, all companies that are owned 50% or more voting shares by Company A and/or Company A’s subsidiary companies¹ are regarded as foreign investors.

¹ The scope of “subsidiary companies” corresponds to the definition under Japan’s Companies Act.
PN-SP for Listed Company

**Exemption Conditions**

a) Investors or their closely-related persons (See Page 7) will not become board members of the investee company.

b) Investors will not propose to the general shareholders’ meeting transfer or disposition of investee company’s business activities in the designated business sectors.

c) Investors will not access non-public information (See Page 8) about the investee company’s technology in relation with business activities in the designated business sectors.

**Exemption Conditions on Core Sectors’ Business Activities**

d) Regarding business activities in core sectors, investors will not attend the investee companies’ committees that make important decisions in these activities.

e) Regarding business activities in core sectors, investors will not make proposals, in a written form, to the executive board of the investee companies or board members requiring their responses and/or actions by certain deadlines.

<table>
<thead>
<tr>
<th>PN-SP</th>
<th>Post-investment report (Box 3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Exempted</td>
</tr>
<tr>
<td></td>
<td>Less than 10%</td>
</tr>
<tr>
<td></td>
<td>10% or more</td>
</tr>
<tr>
<td></td>
<td>Not required</td>
</tr>
<tr>
<td>2</td>
<td>Exempted</td>
</tr>
<tr>
<td></td>
<td>A</td>
</tr>
<tr>
<td>3</td>
<td>Required</td>
</tr>
<tr>
<td></td>
<td>B</td>
</tr>
<tr>
<td>4</td>
<td>Required</td>
</tr>
<tr>
<td></td>
<td>B</td>
</tr>
<tr>
<td>5</td>
<td>Required</td>
</tr>
<tr>
<td></td>
<td>B</td>
</tr>
<tr>
<td>6</td>
<td>Not required</td>
</tr>
<tr>
<td></td>
<td>Less than 10%</td>
</tr>
<tr>
<td></td>
<td>10% or more</td>
</tr>
<tr>
<td></td>
<td>Not required</td>
</tr>
<tr>
<td>7</td>
<td>Not required</td>
</tr>
</tbody>
</table>

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**Box 1**

Exemption Conditions

a) Investors or their closely-related persons (See Page 7) will not become board members of the investee company.

b) Investors will not propose to the general shareholders’ meeting transfer or disposition of investee company’s business activities in the designated business sectors.

c) Investors will not access non-public information (See Page 8) about the investee company’s technology in relation with business activities in the designated business sectors.

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**Box 2**

Exemption Conditions on Core Sectors’ Business Activities

d) Regarding business activities in core sectors, investors will not attend the investee companies’ committees that make important decisions in these activities.

e) Regarding business activities in core sectors, investors will not make proposals, in a written form, to the executive board of the investee companies or board members requiring their responses and/or actions by certain deadlines.

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**Box 3**

A : Post-investment report under exemption

B : Post-investment report after submission of PN-SP and clearance by the authorities

C : Post investment report for non-designated business sectors (No change by the amendment)
PN-SP for Non-listed Companies

 Investee company conducts business activities in designated business sectors

Investment in core sectors

Complying with the Exemption Conditions (a,b,c) (Box1)

PN-SP | Post-investment report (Box2)
--- | ---
1 | Exempted | A
2 | Required | B
3 | Required | B
4 | Not required | Less than 10% | Not required

(Box1)

**Exemption Conditions**

a) Investors or their closely-related persons(*See Page 7) will not become board members of the investee company.

b) Investors will not propose to the general shareholders’ meeting transfer or disposition of investee company’s business activities in the designated business sectors.

c) Investors will not access non-public information(*See Page 8) about the investee company’s technology in relation with business activities in the designated business sectors.

(Box2)

A : Post-investment report under exemption
B : Post-investment report after submission of PN-SP and clearance by the authorities
C : Post investment report for non-designated business sectors (No change by the amendment)
PN-CA for Listed Companies

<Voting at the shareholders’ meeting for nomination of board members>

- Holding 1% or more of stocks of companies in the designated business sectors
  - Yes
  - The person who is nominated for a board member is the foreign investor itself or its closely related person
    - Yes
    - Nomination is made by the investor itself
      - Yes
      - PN-CA is required
    - No
      - PN-CA is not required
  - No
    - PN-CA is not required

1/ When shares were acquired and whether the exemption was used do not matter.

<Voting at the shareholders’ meeting for proposals of transfer or dispositions of business activities in the designated business sectors>

- Holding 1% or more of stocks of companies in the designated business sectors
  - Yes
  - The business activities to be transferred/disposed belong to the designated business sectors
    - Yes
    - Proposal is made by the investor itself
      - Yes
      - PN-CA is required
    - No
      - PN-CA is not required
  - No
    - PN-CA is not required

2/ When shares were acquired and whether the exemption was used do not matter.
Reporting Obligation for Investment Funds

The foreign investor entrusts investment decisions to investment companies/investment advisory companies

Yes

The foreign investor has a right to instruct the investment companies in exercising voting rights

No

Reporting obligation is on entrusted investment companies/investment advisory companies¹/²

No

Reporting obligation is on the foreign investor¹/²

¹/ If investment companies/investment advisory companies fall within the definition of “foreign financial institution”(See page 6), such investment companies/investment advisor companies are eligible for the exemption from the PN-SP requirement.
## Indicative Schedule

<table>
<thead>
<tr>
<th>Month in 2020</th>
<th>Events</th>
</tr>
</thead>
<tbody>
<tr>
<td>March</td>
<td>- Launch of public consultation on the Draft Rules and Regulations (for 30 days)</td>
</tr>
</tbody>
</table>
| End April     | - Authorization of the Amended Rules and Regulations  
                 - List of companies’ classification made public |
| End April/Early May | - Promulgation of the Amended Law, Rules and Regulations |
| May           | - Entry into force of the Amended Law, Rules and Regulations  
                 (Full implementation starts 30 days after its entry into force\(^1/) |

\(^1/\) Article 3, supplementary provisions of the Amended Act.