Foreign Exchange and Foreign Trade Act

Foreign Investment Screening System

Annual Report

(FY2025)

Ministry of Finance, Japan

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1. Foreword

Sound inward direct investment should be further promoted, as it contributes to the sustainable growth of the Japanese economy by bringing in valuable management know-how, technologies and human resources from abroad and fostering innovation. At the same time, amid the evolving security environment, the inward direct investment screening system (hereinafter referred to as the “foreign investment screening system”) under the Foreign Exchange and Foreign Trade Act (hereinafter referred to as “FEFTA”) should provide appropriate, risk-based responses to investments that may impair national security.

In light of these considerations, the amendments to the subordinate legislation under FEFTA that came into force in May 2025 revised the application of the prior notification exemption scheme to foreign investors that have risk profiles similar to those of foreign governments. In addition, based on the recommendations set out in the report of the Council on Customs, Tariff, Foreign Exchange and Other Transactions (hereinafter referred to as the “Council on Foreign Transactions”) in January 2026, the Bill Partially Amending the Foreign Exchange and Foreign Trade Act was submitted to the Diet by the Cabinet on 17 March 2026, enacted on 29 May 2026, and promulgated on 5 June 2026. Through these measures, Japan continues to review and upgrade the system, with a view to establishing a risk-based and differentiated framework that appropriately addresses national security risks while promoting sound investment.

Nevertheless, legislative measures alone are not sufficient to ensure the effectiveness of the system. It is also essential to continuously enhance screening and monitoring capabilities. With this in mind, the Ministry of Finance has been strengthening the enforcement framework, including outreach to regional companies, detection of non-notified cases, and monitoring, by working through the Regional Finance Bureaus and in cooperation with regional branches of other relevant ministries, such as the Bureaus of Economy, Trade and Industry. In addition, the Japan Foreign Investment Committee (JFIC) was established in June 2026 with a view to strengthening the inter-ministerial framework for investment screening in collaboration with relevant ministries.

Furthermore, in order to effectively address economic security requirements while promoting sound investment, it is essential to ensure predictability for investors through consistent screening practices and appropriate disclosure of information.

This Annual Report presents various statistical data related to the foreign investment screening system and explains, as clearly as possible, the outline and history of the system, the authorities' views on screening and monitoring, and operational practices. It also covers recent policy developments, including the strengthening of the screening and monitoring framework and progress in efforts to detect non-notified cases. Through its columns, the report also discusses policy developments related to economic security as well as the Government’s policy initiatives to promote inward investment, with the aim of helping readers understand the foreign investment screening system from multiple perspectives.

We hope that this Annual Report will contribute to enhancing the transparency of the foreign investment screening system under FEFTA and facilitating communication on related policies.

OGATA Kentaro
Director-General of the International Bureau
Ministry of Finance

2. Outline of the system (general explanation)

(1) Outline of FEFTA

FEFTA provides for fundamental matters on foreign transactions (cross-border payments and various transactions). Article 1 of FEFTA states, "The purpose of this Act is to, based on freedom of foreign transactions, such as foreign exchange and foreign trade, ensure the normal development of foreign transactions and the maintenance of peace and security in Japan or international society by conducting the minimum necessary control or coordination of foreign transactions, thereby bringing about a balance of payments equilibrium and stability of currencies and contributing to the sound development of the Japanese economy."

Under FEFTA at the time of its enactment (1949), foreign transactions were prohibited in principle due to the centralized management of foreign currencies and the reconstruction of domestic industry after the war. After gradual liberalisation, however, the current FEFTA now serves as a framework for free foreign transactions in principle (see "Column 1"). It also functions as a law to implement economic sanctions such as asset freezing for the prevention of international financial system abuse, and as a tool to control foreign transactions for security purposes and in dealing with economic emergencies. Data requested under FEFTA are used to prepare balance of payments statistics and understand market trends.

Overview of FEFTA (Foreign Exchange and Foreign Trade Act)

Points

- FEFTA provides for fundamental matters on foreign transactions (cross-border payments and various transactions)
- When FEFTA was first enacted (1949), foreign transactions were prohibited in principle in order to centralize the management of foreign currency and rebuild domestic industry, but liberalisation of the framework has since progressed step by step, and foreign transactions are in-principle free under the current framework.
- The Act also functions to implement measures such as economic sanctions and other measures to freeze assets to prevent abuses of the international financial system.
- It also serves as a tool for controlling foreign transactions for security purposes and in dealing with economic contingencies.
- Data collected under FEFTA is also used to compile balance of payments statistics and to monitor market trends.

Article 1: Purpose of FEFTA

The purpose of this Act is to, based on freedom of foreign transactions, such as foreign exchange and foreign trade, ensure the normal development of foreign transactions and the maintenance of peace and security in Japan or international society by conducting the minimum necessary control or coordination of foreign transactions, thereby bringing about a balance of payments equilibrium and stability of currencies and contributing to the sound development of the Japanese economy.

○ **Principle: freedom of foreign transactions**

○ **Exceptions: minimum necessary control or coordination** → Restrictions may apply to foreign transactions

①economic sanctions : Blocking of funds and freezing of assets related to terrorism, development of nuclear weapons in breach of international commitments, etc.

②investment restrictions : Certain restrictions on acquisitions of certain business sectors by foreign capital such as defense industry, nuclear power, water supply, railways and software

③economic emergency : In the case of rapid fluctuations in foreign exchange markets and sudden capital flows that have a negative impact on the macroeconomy

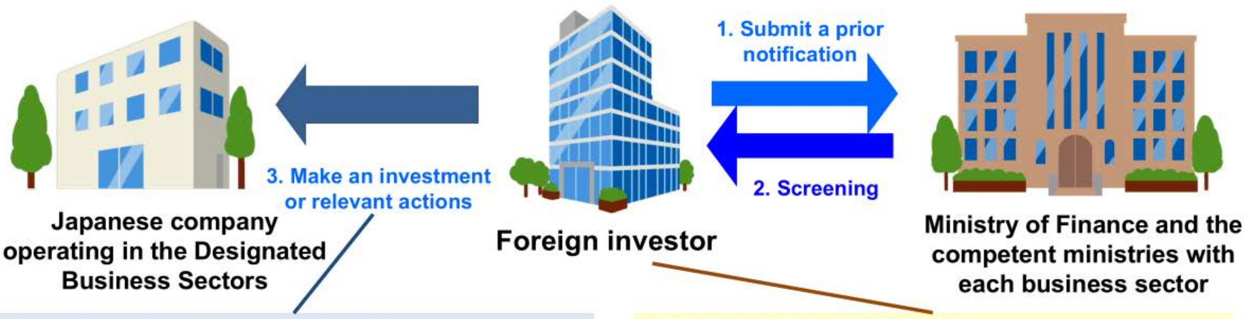
(2) Outline of the Foreign Investment Screening System (as of June 2026)[1]

FEFTA requires prior notifications for certain types of foreign investors' transactions and actions, such as inward direct investment, in certain cases from the viewpoint of ensuring national security, maintaining public order, protecting public safety, and ensuring the smooth functioning of the Japanese economy, while maintaining the principle of freedom of foreign transactions. The Minister of Finance and the competent minister for the business are prescribed to screen the notifications (FEFTA Article 27: Screening of prior notifications for inward direct investment and equivalent actions). In addition, before a foreign investor acquires shares or equity in an unlisted company in Japan through a transfer from another foreign investor, prior notification is also required and screened from the viewpoint of ensuring national security (FEFTA Article 28: Screening of prior notification for Specified Acquisitions).

[1] The investment screening system under FEFTA was amended, as shown in Section 3. (1) below, by the Act Partially Amending the Foreign Exchange and Foreign Trade Act (promulgated on 5 June 2026). However, this part explains the contents of the system which was effective as of June 2026.

Outline of Foreign Direct Investment Screening

Under the FEFTA regime, when foreign investors make an investment in or take a relevant action to Japanese companies operating in the Designated Business Sectors, the foreign investors must submit a prior notification via a resident in Japan acting as an agent.



Investment and relevant actions

- Acquiring 1% or more of stocks of a listed company
- Acquiring one or more stocks of an unlisted company (no threshold)
- Giving consent to the appointment of a foreign investor or his/her closely-related person as a board member or corporate auditor of the investee company
- Proposing or giving consent to the transfer or disposition of the investee company's business

etc.

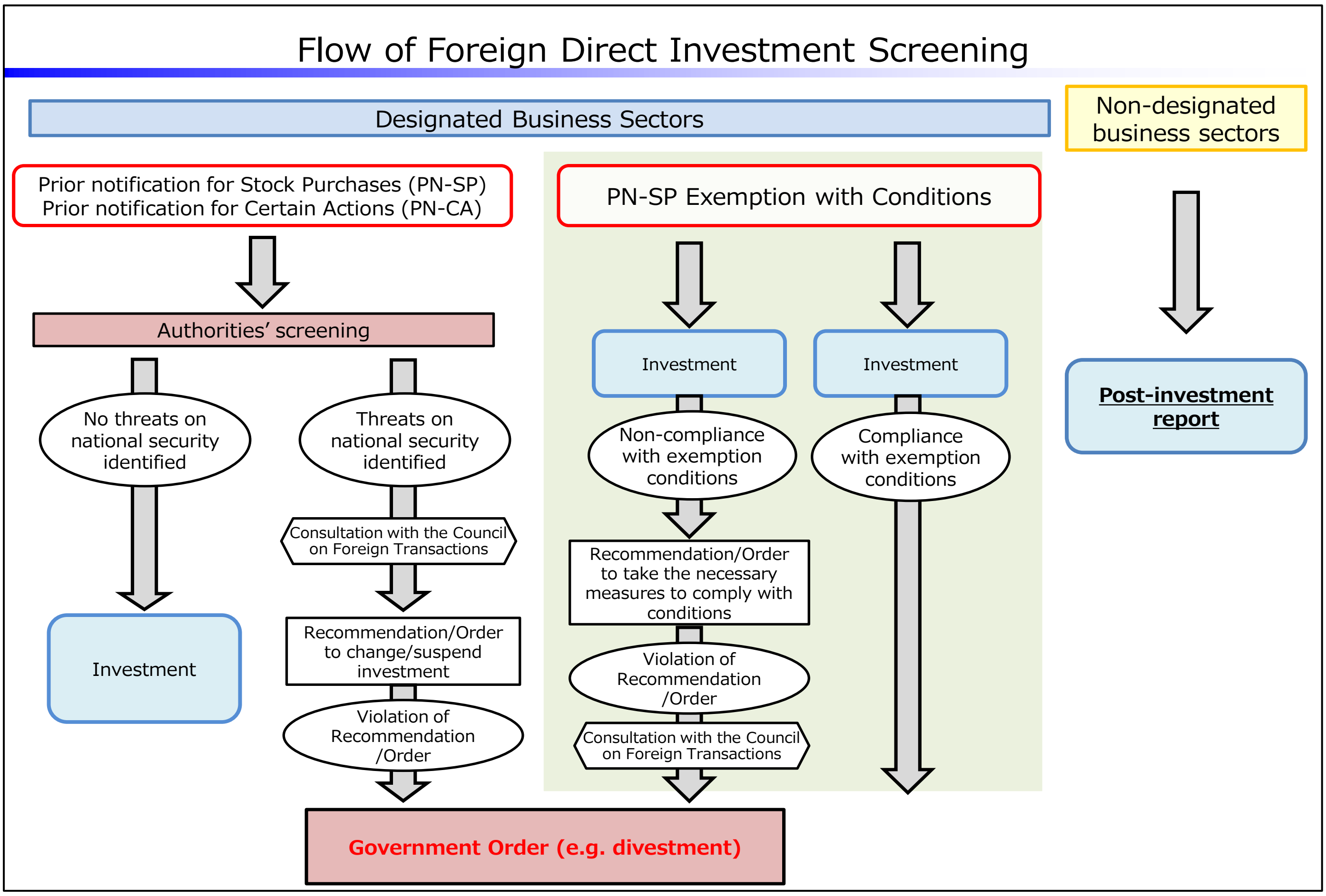
Foreign Investor Categories

① Non-resident individuals
② Corporations and organizations incorporated under foreign laws and regulations
③ Japanese companies in which 50% or more of voting rights are held by ① or ②
④ Partnerships in which 50% or more of capital investments are made by ① or ②
⑤ Partnerships in which the majority of business-executing partners are ① or ②

As shown in the figure below, the foreign investment screening system under FEFTA can be roughly classified into three types. First, the left-hand side covers investment in business sectors designated from the viewpoint of national security, etc. (designated business sectors in (5) below) for which prior notification is required in principle. The Ministry of Finance and the competent ministries for the business) screen the notification to see if the investment in question impairs national security or is inconsistent with the other objectives under FEFTA as earlier stated. If the screening finds it does, the authorities may recommend or order the modification or discontinuance of the investment in question after taking the prescribed procedures, such as hearing opinions from the Council on Foreign Transactions (FEFTA Articles 27 and 28). If the relevant foreign investor violates the recommendation or order, the authorities may order necessary measures, such as the disposal of shares (hereinafter referred to as "order for measures") (FEFTA Article 29).

Second, the middle of the figure covers investments where a foreign investor complies with certain conditions, such as refraining from being involved in the management of the target company and from accessing secret non-public technology information, and the investment is therefore considered to be purely for the purpose of asset management. In such cases, the investor may be exempted from the prior notification requirement and only a post-investment report is required after its implementation of the investment (the prior notification exemption system: see (6) below). If the foreign investor violates the exemption conditions, however, the authorities may recommend or order the investor to take necessary measures to comply with the conditions (FEFTA Articles 27-2 and 28-2). If the foreign investor violates the recommendation or order, and such investments impair national security, the authorities may order necessary measures, such as the disposal of shares after taking the prescribed procedures, such as hearing opinions from the Council on Foreign Transactions, in the same way as the first case outlined in the preceding paragraph (FEFTA Article 29).

Lastly, the right-hand side covers investment in non-designated business sectors, for which a post investment report is required.


Flow of Foreign Direct Investment Screening
Designated Business Sectors
Non-designated business sectors
Prior notification for Stock Purchases (PN-SP)
Prior notification for Certain Actions (PN-CA)
Authorities' screening
No threats on national security identified
Investment
Threats on national security identified
Consultation with the Council on Foreign Transactions
Recommendation/Order to change/suspend investment
Violation of Recommendation /Order
PN-SP Exemption with Conditions
Investment
Non-compliance with exemption conditions
Recommendation/Order to take the necessary measures to comply with conditions
Violation of Recommendation /Order
Consultation with the Council on Foreign Transactions
Investment
Compliance with exemption conditions
Post-investment report
Government Order (e.g. divestment)

<Column 1> History of the Foreign Investment Screening System of Japan

Japan's foreign investment screening system was initiated with the Foreign Capital Act (hereinafter referred to as the “defunct Foreign Capital Act”) enacted in 1950 as a special law for the then FEFTA. Reflecting the economic situation just after the war, the defunct Foreign Capital Act, unlike the current FEFTA, aimed to “permit the investment of foreign capital that contributes to the independence and sound development of the Japanese economy and the improvement of the balance of payments, secure remittances arising from the investment of foreign capital, take appropriate measures for protecting such foreign capital, and thereby create a sound basis for the investment of foreign capital in Japan.” As Japan's foreign exchange situation was extremely unstable then, overseas remittances accompanying foreign economic transactions were strictly regulated by the then FEFTA in general. On the other hand, the defunct Foreign Capital Act required the introduction of foreign capital to be approved by the competent minister in principle and guaranteed remittances for approved transactions.

As Japan gradually improved its position in the international economy becoming an industrialised country in the second half of the 1960s, this closed policy was reviewed from the perspective of Japanese economic development and the promotion of international cooperation. Subsequently, the regulations under the then FEFTA and the defunct Foreign Capital Act were successively relaxed for the liberalisation of capital. After Japan’s accession to the Organisation for Economic Cooperation and Development (OECD) in 1964 it was obliged to gradually eliminate restrictions on capital movements in accordance with the OECD Code of Liberalisation of Capital Movements. This included specific liberalisation measures to expand the scope of business sectors for liberalisation from 1967 to 1973. Subsequently, the defunct Foreign Capital Act was abolished in 1979 in a manner to be integrated into the then FEFTA. The foreign investment approval system (prohibition in principle) was then replaced by the reporting system (liberalisation in principle) to promote the institutional liberalisation of foreign investment.

As capital flows between Japan and other countries grew briskly in line with Japan’s growing weight in the world economy from 1985 to 1989, Japan’s overseas direct investment noticeably increased while foreign direct investment in Japan, though growing, slipped below the amount of Japan’s overseas investment. Against this backdrop, Japan and the United States discussed their external direct investment policies at their Structural Impediments Initiative talks. The Japanese Government accordingly offered to consider revising the then FEFTA. In response, the FEFTA revision in 1991 replaced the in-principle prior notification system with the in-principle ex post facto reporting system regarding the screening of foreign investment under FEFTA, while maintaining the prior notification requirement for some business sectors. Regulations on foreign investment were thus liberalised further. Specifically, the revision switched from prior notification subject to same-day processing to ex post facto reporting for most business sectors, simplifying relevant procedures significantly. (Until the 1991 revision, prior notification was required for all business sectors in principle while a 30-day prohibition was established on any investment deal. In practice, however, prior notification for business sectors that clearly did not fall under the category of national security-related sectors were processed on the same day, allowing investors to implement the relevant investment transactions on the same day of the prior notification.) Later, business sectors which require prior notification were updated when necessary. When the then FEFTA was revised into the current FEFTA for full foreign exchange liberalisation in 1998, the word “control” was deleted from the name of the act.

Subsequent major FEFTA revisions in 2017 included the introduction of Specified Acquisition, a new category of transaction that requires prior notification for screening (FEFTA Article 28) and a new clause for Orders for Measures against non-notified cases, false notification, and the violation of orders to modify or discontinue relevant transactions (FEFTA Article 29. (2) above). The 2019 revision enhanced regulations regarding national security by lowering the threshold stake for the acquisition of listed shares from 10% to 1% and establishing prior notification for Certain Actions (namely, (i)voting at the shareholder’s meeting for nomination of the foreign investor itself or a related person as a board member of the investee company or (ii)voting at the shareholder’s meeting for a proposal, made by those foreign investors, to transfer or dispose of the investee company’s business activities in the designated business sectors), while easing regulations by introducing the prior notification exemption system. This revision established a basic framework for the current investment screening system. In 2025, the Cabinet Order on Inward Direct Investment and Ministerial Order on Inward Direct Investment and Public Notices were revised to include new categories of foreign investment that are subject to restrictions on the use of the prior notification exemption system, due to potential risks to national security (the Cabinet Order Article 3-2). The 2026 amendment to FEFTA aims to upgrade the investment screening system in light of the implementation experience gained to date and changes in the security environment. (see Section 3.(1) below).

(3) Types of Foreign Investors Subject to the Foreign Investment Screening System

Foreign investors subject to the foreign investment screening system are defined in Article 26, Paragraph 1 of FEFTA as those who implement inward direct investment and equivalent actions, or specified acquisitions, as follows. In this respect, individuals are defined with a focus on residency. Even Japanese nationals are considered foreign investors subject to the foreign investment screening system if they reside abroad. On the other hand, foreign nationals who do not have Japanese nationality are not subject to this system if they are residents of Japan. As for corporations, even companies and partnerships established in Japan may fall under foreign investors in certain cases (so-called "resident foreign investors") as described in items (iii) to (v) below:

(i) An individual who is a non-resident
(ii) A juridical person or other organisation established pursuant to foreign laws and regulations
(iii) A (Japanese) corporation for which 50% or more voting rights are held directly or indirectly by items (i) and (ii)
(iv) A partnership that is owned 50% or more by items (i) and (ii) and a partnership for which items (i) and (ii) account for a majority of operating partners.
(v) A corporation or any other organisation for which non-resident individuals account for a majority of directors or holders of representation rights.

(4) Types of Foreign Direct Investment and Equivalent Actions Subject to the Foreign Investment Screening System

Actions subject to the foreign investment screening system, including the acquisition of shares, are defined in Article 26, Paragraph 2 of FEFTA as follows: In addition to the acquisition of shares, consent to substantial changes in the purpose of business, appointments to directors, etc., transfer or abolition of all or a part of business operations (item v), the establishment of a branch office (item vi), and loans to domestic corporations of more than one year (when the balance exceeds 100 million yen or more than 50% of liabilities) (item vii) are defined as types of inward direct investment subject to prior notification and screening.

(i) Acquisition of shares or equity in an unlisted company
(ii) Transfer of shares or equity in an unlisted company by a non-resident who was formerly a resident
(iii) Acquisition of 1% or more of the total outstanding shares of a listed company
(iv) Acquisition of 1% or more of the total voting rights of a listed company
(v) Consent to substantial changes in the business purpose of the company and other matters that have a significant impact on the management of the company (e.g., appointments of directors or transfer of important business operations)
(vi) Establishment of branches, etc., or substantial changes in the type or business purpose of branches, etc.
(vii) Money loans of more than one year
(viii) Acquisition of business operations, etc.
(ix) Actions stipulated by Cabinet Order as actions equivalent to the preceding ones (stipulated in Article 2, Paragraph 16 of the Cabinet Order on Inward Direct Investment)

* When an equity stake is calculated, a foreign investor's stake is added to those of a closely related person of the investor.

(5) Designated Business Sectors

Under the principle of free foreign transactions, the foreign investment screening system requires foreign investors to submit prior notifications when the investors acquire shares or equity of Japanese companies engaging in business sectors which are designated from the perspective of national security and other aforementioned objectives under FEFTA (designated business sectors). The Ministry of Finance and the competent ministries for the business undertake screening of notified investments.

Designated business sectors are stipulated in Public Notices by the Ministry of Finance and the competent ministries for the business and are constantly updated to reflect economic security requirements within the foreign investment screening system framework. Based on this policy, new core designated business sectors were added from the viewpoint of securing stable supply chains and addressing the risk of technology leakage and the military diversion of commercial technologies, in response to the designation in April 2023 and August 2024 of "specified critical products" subject to stable supply support under the Act on the Promotion of Ensuring National Security through Integrated Implementation of Economic Measures (hereinafter referred to as the "Economic Security Promotion Act"). The current designated business sectors are as follows:[2]

[2] The Ministry of Finance publishes the "list of classifications of listed companies regarding the prior-notification requirements on inward direct investment under the Foreign Exchange and Foreign Trade Act" based on the results of voluntary inquiries addressed to all listed companies and other relevant information, to help foreign investors determine whether a prior notification is required under the Act.
https://www.mof.go.jp/english/policy/international_policy/fdi/Related_Guidance_and_Documents/gaitouseilist20250715.xlsx

Designated Business Sectors

Designated Business Sectors

- Weapons
- Aircrafts (incl. drones)
- Nuclear facilities
- Space
- Dual-use technologies
- Pharmaceutical manufacturing sector of communicable diseases
- Specially-controlled medical devices manufacturing
- Metal mining, smelting, refining etc. of critical minerals
- Construction service business etc. which improves or maintains port facilities on Designated Remote Islands
- Fertilizers (potassium chloride, etc.) importing
- Permanent magnets mfg., its material mfg.
- Machine tools, industrial robots manufacturing
- Manufacturing etc. of semiconductor mfg. equipment
- Manufacture of advanced electronic components
- Storage batteries mfg., its material mfg.
- Marine equipment (engine etc.) manufacturing
- Metal 3D printers mfg., metal powder mfg.
- Manufacture of multifunctional machines
- Manufacture of fibre optic cables
- Cybersecurity-related (Software, Semiconductor, etc.)
- Electricity
- Gas
- Telecommunications
- Water supply
- Railway
- Petroleum
- Heat supply
- Broadcasting
- Public transport bus
- Security services
- Agriculture, Forestry and Fisheries
- Leather manufacture
- Aviation transportation
- Maritime transportation

Core Business Sectors

- Weapons; Aircrafts (incl. drones); Nuclear facilities; Space; Dual-use technologies
- Pharmaceutical manufacturing sector of communicable diseases
- Specially-controlled medical devices manufacturing
- Metal mining, smelting, refining etc. of critical minerals
- Construction service business etc. which improves or maintains port facilities on Designated Remote Islands
- Fertilizers (potassium chloride, etc.) importing
- Permanent magnets mfg., its material mfg.
- Machine tools, industrial robots manufacturing
- Manufacturing etc. of semiconductor mfg. equipment
- Manufacture of advanced electronic components
- Storage batteries mfg., its material mfg.
- Marine equipment (engine etc.) manufacturing
- Metal 3D printers mfg., metal powder mfg.
- Manufacture of multifunctional machines
- Manufacture of fibre optic cables
- Cybersecurity-related (Cybersecurity-related services, services for providing programs specially designed for critical infrastructures, etc.)
- Electricity (Part of general electricity transmission and distribution utility, electricity transmission utility, and electricity generation utility)
- Gas (Part of general gas utility, specified gas pipeline service providers, gas manufacturing business operators, and LP gas dealers)
- Telecommunications (Part of telecommunications carrier)
- Water supply (Part of water supply service providers and part of wholesale water supply service providers)
- Railway (Part of railway business operator)
- Petroleum (petroleum refining industry, petroleum stockpiling business, crude oil and natural gas extraction, and natural gas wholesale business)

Non-Core Designated Business Sectors

- Cybersecurity-related, electricity, gas, telecommunications, water supply, railway, petroleum other than Core Business Sectors
- Heat supply
- Broadcasting
- Public transport bus
- Security services
- Agriculture, Forestry and Fisheries
- Leather manufacture
- Aviation transportation
- Maritime transportation

<Column 2> Recent Changes to Designated Business Sectors

Under the foreign investment screening system, designated business sectors are specified in Public Notices from the perspective of ensuring national security, maintaining public order, protecting public safety, and ensuring the smooth operation of the Japanese economy. In principle, prior notification is required for inward direct investment in companies engaged in these business sectors. Additionally, among designated business sectors, those posing a significant risk to national security are designated as core business sectors, and in principle, the exemption from prior notification for stock purchase in such sectors is not applicable.

In response to the need for economic security arising from changes in the socio-economic structure, such as the advancement of internationalisation, rapid technological innovation and the digitalisation of industrial infrastructure, reviews of designated business sectors are conducted on an ongoing basis. The details of the reviews conducted since 2019 are as follows.

● Addition of cyber security-related sectors (enforced on 27 May 2019, effective from 1 August 2019)

In other countries, there have been cases where malicious programs were installed in equipment used for nuclear power plants and military purposes, and cases where centrifuges used for uranium enrichment were damaged and shut down due to virus infections. These incidents demonstrate that sensitive information can be stolen and critical infrastructure can be shut down using general-purpose chips and software. In light of the growing importance of ensuring cybersecurity, certain cyber-related sectors (semiconductor manufacturing, software, information processing services, and certain telecommunications industries, etc.) have been added to the list of designated business sectors.

● Addition of infectious disease medicine sectors (enforced on 15 June 2020, effective from 15 July 2020)

When the novel Coronavirus Disease (Covid-19) became a global threat in January 2020, the World Health Organisation (WHO) declared a Public Health Emergency of International Concern (PHEIC). In response to the global spread of the infection, the production of pharmaceuticals for infectious diseases and advanced medical devices was added to the list of the core business sectors, in order to maintain the domestic manufacturing base of important medical sectors related to public health and to prevent situations that could significantly impact national security and public health.

● Addition of critical mineral resource-related sectors (enforced on 5 October, effective from 4 November 2021)

In order to break away from dependence on imports from other countries, it is important to achieve domestic procurement of rare earth elements through the mining of rare earth mud confirmed in the seabed off Minamitorishima in the Ogasawara Islands. In order to ensure a stable supply of critical mineral resources, such as rare earths, which are expected to become more in demand, and to address vulnerabilities in the supply chain, business sectors related to mining and conducting resource surveys to ensure a stable supply of critical mineral resources have been added to the list of core business sectors. Additionally, to ensure the smooth operation of vessels conducting critical mineral resource surveys, marine construction companies involved in developing specific island port facilities have been added to the list of the core business sectors.

● Addition of sectors related to the specified critical products (enforced on 24 April 2023, effective from 24 May 2023)

In December 2022, the government designated specified critical products under the Economic Security Promotion Act to strengthen the supply chains of such products. This measure was undertaken by supporting private-sector entities that work to ensure the stable supply of products that are essential for the survival of the people or on which the lives and economic activities of the people broadly depend. Furthermore, in accordance with the basic policy of the Act (approved by the Cabinet on 30 September 2022), which states that the government must play a more active role in both supporting and regulating economic security, the government reviewed the core business sectors to cover 11 specified critical products* and the manufacturing of metal 3D printers and drones, taking into account the need to ensure stable supply, address risks of technology leakage and military use, and other considerations related to “national security” under FEFTA.

*Specified critical products: Antimicrobial agents, fertilisers, semiconductors, batteries, permanent magnets, critical minerals, machine tools and industrial robots, aircraft parts, cloud programs, natural gas, and ship-related equipment.

● Addition of sectors related to the specified critical products (enforced on 16 August 2024, effective from 15 September 2024)

In response to the additional designation of 'specified critical products' aimed at ensuring stable supply under the Economic Security Promotion Act, we conducted a review under FEFTA from the perspectives of ensuring stable supply and addressing the risks of technology leakage and military diversion. As a result, the following business sectors have been designated: semiconductor manufacturing-related equipment manufacturing (machinery, parts, materials, and raw materials exclusively used for semiconductor manufacturing), advanced electronic component manufacturing (electronic components such as multilayer ceramic capacitors and their raw materials), manufacturing of machine tool parts (machine tool parts such as ball screws, linear guides, and linear scales), and manufacturing of marine engines (four-stroke diesel engines for civilian ships with a continuous maximum output of 735 kW or more) have been added to the core business sectors.

At the same time, from the perspective of ensuring national security, the manufacture of optical fibre cables (silicon-based optical fibres and optical fibre strands) and the manufacture of multifunction devices were added to the core business sectors for products that were not designated as "specified critical products."

(6) Prior Notification Exemption System

Prior notification may not be required for the acquisition of shares and voting rights in listed companies, etc., and the acquisition of shares and equity in unlisted companies, etc. among inward direct investment transactions made by foreign investors, only if they comply with certain conditions (exemption conditions), such as refraining from being appointed as directors and accessing secret non-public technology information. However, foreign investors who have been punished for violating FEFTA in the past, foreign governments, foreign government-controlled entities, and Type-A investors cannot use the prior notification exemption system. Furthermore, it is important to note that the prior notification requirement is not simply waived. Rather, as long as the shares are held, a new obligation arises to comply with the exemption conditions and report certain changes to investor attributes.

A foreign investor who has used the prior notification exemption system must submit to the authorities a post-investment report pledging to abide by the exemption conditions within 45 days after implementing a relevant investment transaction. If a foreign investor who has used the prior notification exemption system violates the exemption conditions, the authorities may recommend and order the investor to correct the violation. If the investor fails to abide by the recommendation and order, the authorities may order the investor to take measures such as the disposal of shares. Any foreign investor who refuses to abide by such order may be subjected to criminal punishment.

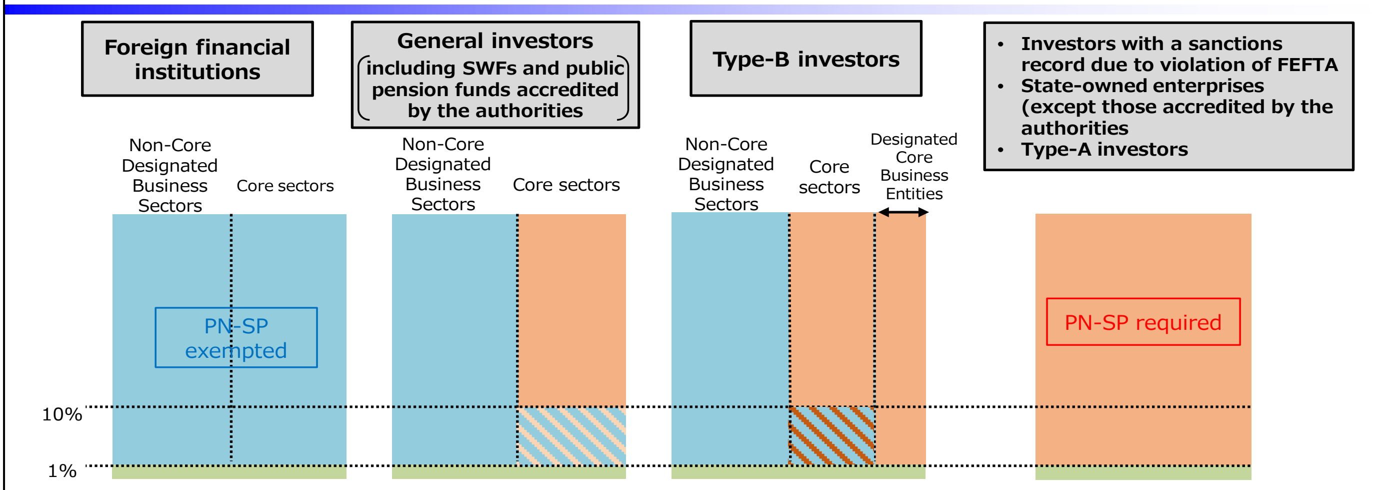
Also, in 2025, the cabinet order, ministerial order and public notices of FEFTA were amended to newly add types of foreign investors whose use of the prior notification exemption system is restricted from the perspective of risks compromising Japan's national security.

As a background, amid growing national security concerns, such as the risk of foreign investors' leaking technology and information from Japanese companies through investment and the risk of damage to industries and services related to national security, it was pointed out that some investors eligible for the exemption system could invest without pre-screening by the authorities, despite posing similar risks to foreign governments or SOEs and potentially leaking information.

To address this, Type-A Investors, who are obliged to cooperate with foreign governments in collecting information related to Japan's national security based on an agreement with the foreign governments or foreign laws and regulations, are now required to file prior notifications when the investors intend to conduct investments in any designated business sector. Furthermore, even if investments do not fall under the aforementioned categories, investments intended to be conducted by Type-B Investors in the companies subject to the Economic Security Promotion Act that particularly need measures under FEFTA (i.e. "Specified Essential Infrastructure Service Providers" under Economic Security Promotion Act which are operating in core business sectors, so-called "Designated Core Business Entities" under amended exemption system) are not eligible for the exemption of the prior notification requirement as their investments are recognised as posing high risks to Japan's national security.

The outline of the exemption conditions in the prior notification exemption system and the thresholds for the post-investment report is as follows:

Exemption Scheme for Prior Notification of Stock Purchases (PN-SP) of listed companies



As stipulated in the Public Notices		
Exemption Conditions	a) Investors or their related persons 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 about the investee company's technology in relation with business activities in the designated business sectors.	
Exemption Conditions on Core Sectors' Business Activities (in addition to above exemption conditions)	d) Regarding business activities in core sectors, investors will not attend the investee companies' executive board or 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.	
Exemption Conditions on Type-B investors (in addition to all the above conditions)	f) Investors will not access non-publicised information about the core business sector (excluding information about board members and the financial conditions of investee companies) g) investors will not send their own employees to investee companies, nor will they recruit or solicit executives or employees of investee companies	

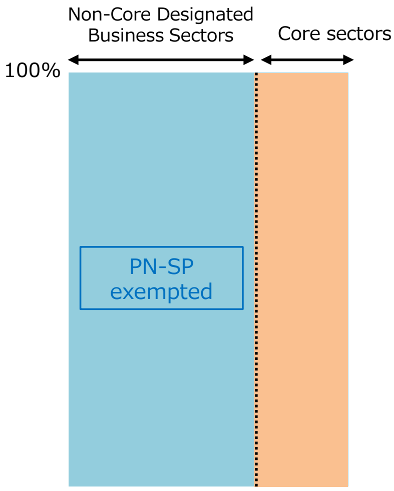
Exemption Scheme for Prior Notification of Stock Purchases of listed companies

Types of investors	Scope	
Foreign financial institutions	Non-Core Sectors / Core sectors	<"Blanket exemption"> • PN-SP will be exempted with no upper limit only if they comply with the Exemption Conditions (a,b,c) • Post-investment report – from 10%
General investors (including SWFs and public pension funds accredited by the authorities)	Non-Core Sectors	<"Regular exemption"> • PN-SP will be exempted with no upper limit only if they comply with the Exemption Conditions (a,b,c) • Post-investment report - from 1%
	Core sectors	• PN-SP will be exempted under 10% only if they comply with the Exemption Conditions on Core Sectors' Business Activities (a-e) • Post-investment report - from 1%
Type-B investors	Non-Core Sectors	• PN-SP will be exempted with no upper limit only if they comply with the Exemption Conditions (a,b,c) • Post-investment report - from 1%
	Core sectors (other than Designated Core Business Entities)	• PN-SP will be exempted under 10% only if they comply with the Exemption Conditions on Type-B investors (a-g) • Post-investment report - from 1%
	Designated Core Business Entities	• No exemption is applicable
• Investors with a sanctions record due to violation of FEFTA • State-owned enterprises (except those accredited by the authorities) • Type-A investors	Non-Core Sectors / Core sectors	• No exemption is applicable

Exemption Scheme for Prior Notification of Stock Purchases of unlisted companies

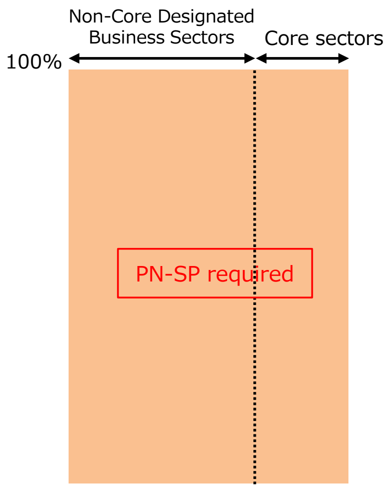
Regular exemption

- Foreign financial institutions
- General investors (including SWFs and public pension funds accredited by the authorities)
- Type-B investors



Exemption not applicable

- Investors with a sanctions record due to violation of FEFTA
- State-owned enterprises (except those accredited by the authorities)
- Type-A investors



Exemption Conditions	a) Investors or their related persons 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 about the investee company's technology in relation with business activities in the designated business sectors.	

Exemption Scheme for Prior Notification of Stock Purchases of unlisted companies

Types of investors	Scope	
• Foreign financial institutions • General investors (including SWFs and public pension funds accredited by the authorities) • Type-B investors	Non-Core Sectors	• PN-SP will be exempted with no upper limit only if they comply with the Exemption Conditions (a,b,c) • Post-investment report is necessary (from one share)
	Core sectors	・No exemption is applicable
• Investors with a sanctions record due to violation of FEFTA • State-owned enterprises (except those accredited by the authorities) • Type-A investors	Non-Core Sectors Core sectors	・No exemption is applicable

［Exemption Conditions］

a) Investors or their related persons 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 about the investee company's technology in relation with business activities in the designated business sectors.

Amendment to Cabinet Order & Ministerial Order of FEFTA effective in May 2025

○ **Newly created 2 types of foreign investors** by reviewing application of the exemption system to foreign investors who have risks similar to those of foreign governments.

- Foreign investors as organsations or individuals who have obligations to cooperate with foreign governments in collecting information related to Japan's national security based on agreements with foreign investors or foreign laws and regulations or organisations controlled by such foreign investors or foreign governments (**Type-A investors) are required prior notifications for investments in all designated business sectors.**
- For **investments in Designated Core Business Entities by** investors who are controlled their substantive decision-making by organisations or individuals with obligations to cooperate with foreign governments in collecting information related to Japan's national security based on agreements or foreign laws and regulations (**Type-B investors) , the exemption system is NOT applicable.**

(Added ones by this amendment are in red)

	Foreign financial institutions	General investors incl. SWF & PPFs accredited by the authorities	Type-B investors	Investors with sanction record due to violation of FEFTA, Foreign governments, SOEs Type-A investors
Non-Designated Business Sectors	Post-investment report			
Non-Core Designated Business Sectors	Exemption conditions	Exemption conditions	Exemption conditions	**Prior notification** ※Exemption NOT applicable
Core Designated Business Sectors	Exemption conditions	(Less than 10%) Additional conditions (10% or more) **Prior notification** ※Exemption NOT applicable	(Less than 10%) **New additional conditions** (10% or more) **Prior notification** ※Exemption NOT applicable	**Prior notification** ※Exemption NOT applicable
Designated Core Business Entities	Exemption conditions	(Less than 10%) Additional conditions (10% or more) **Prior notification** ※Exemption NOT applicable	**Prior notification** ※Exemption NOT applicable	**Prior notification** ※Exemption NOT applicable

Amendment to Cabinet Order & Ministerial Order of FEFTA effective in May 2025

○ **Limit the use of the prior notification exemption system by foreign investors who have risks similar to those of foreign governments or SOEs** because of high necessity of screening their investments from perspective of Japan's national security amid to argument on risk of foreign investors' leaking technology and information from Japanese companies through the investments.

Type-A investors

※Introduced by 2025 amendment

Foreign investors who fall into either of the following:

① **Information Collection Obligators** : Organisations or individuals who have **obligations to cooperate with foreign governments in collecting information**, which was gained by inward direct investments and has a significant risk of harming Japan's national security, **based on agreements with foreign governments or foreign laws and regulations**

② Organisations which are controlled by the organisations or individuals mentioned above or foreign governments which impose obligations on these investors. This control may be established through **50% or greater** ownership of voting shares, so-called golden shares or appointment of **1/3 or more** of the organisations' board members

Type-B investors

※Introduced by 2025 amendment

Foreign investors who fall into either of the following:

- Their decision-making is controlled by Information Collection Obligators
- Their substantive headquarters are located in foreign countries/regions other than the countries/regions of incorporation, and their activities are affected by laws and regulations on information collection activities related to Japan's national securities where their substantive headquarters are located
- Investors with obligations to cooperate with foreign governments in collecting information related to Japan's national security based on agreements (including each agreement when having chains of similar agreements) with ① or ② above for "Type-A investors"

<Column 3> Types of Foreign Investors and Investment Transactions That Cannot Use the Prior Notification Exemption System

In principle, the prior notification exemption system cannot be used if foreign investors fall under the following categories of foreign investors or conduct specific investment transactions, such as those who have been punished for violating FEFTA in the past or state-owned enterprises or those controlled by state-owned enterprises.

[Types of foreign investors who cannot use the prior notification exemption system]

- Those who have been subject to criminal punishment for violation of FEFTA and have completed their sentence, or those who violated administrative orders under FEFTA within the past five years
- Those who have been ordered to take the necessary measures to comply with exemption conditions in the past for violating the exemption conditions
- Foreign governments, etc., companies controlled by foreign governments, etc. (excluding accredited sovereign wealth funds (SWFs), etc.), and directors of these organisations.
- Individuals or organisations who have obligations to cooperate with foreign governments in information collection activities, companies controlled by them, and directors of these organisations (hereinafter collectively referred to as "Type-A Investors")

[Types of investment transactions that cannot use the prior notification exemption system]

- Investment in business sectors designated in Public Notices for detailed screening from the viewpoint of national security, etc. (core business sectors)
  (However, if certain foreign financial institutions comply with the exemption conditions when acquiring shares in listed companies, etc. (blanket exemption) and if regular investors comply with exemption conditions on core sectors' business activities when acquiring less than 10% of shares in listed companies, the prior notification exemption system can be used.
- Investment in companies designated as the "Specified Essential Infrastructure Service Providers" under the Economic Security Promotion Act, which conduct business activities in the core business sectors (hereinafter referred to as the "Designated Core Business Entities") made by Type-B Investors.
- Investment transactions that aim to make it difficult for business operations in designated business sectors to be conducted continuously and stably
- Investment transactions that have the purpose of committing actions that are contrary to complying with the exemption conditions

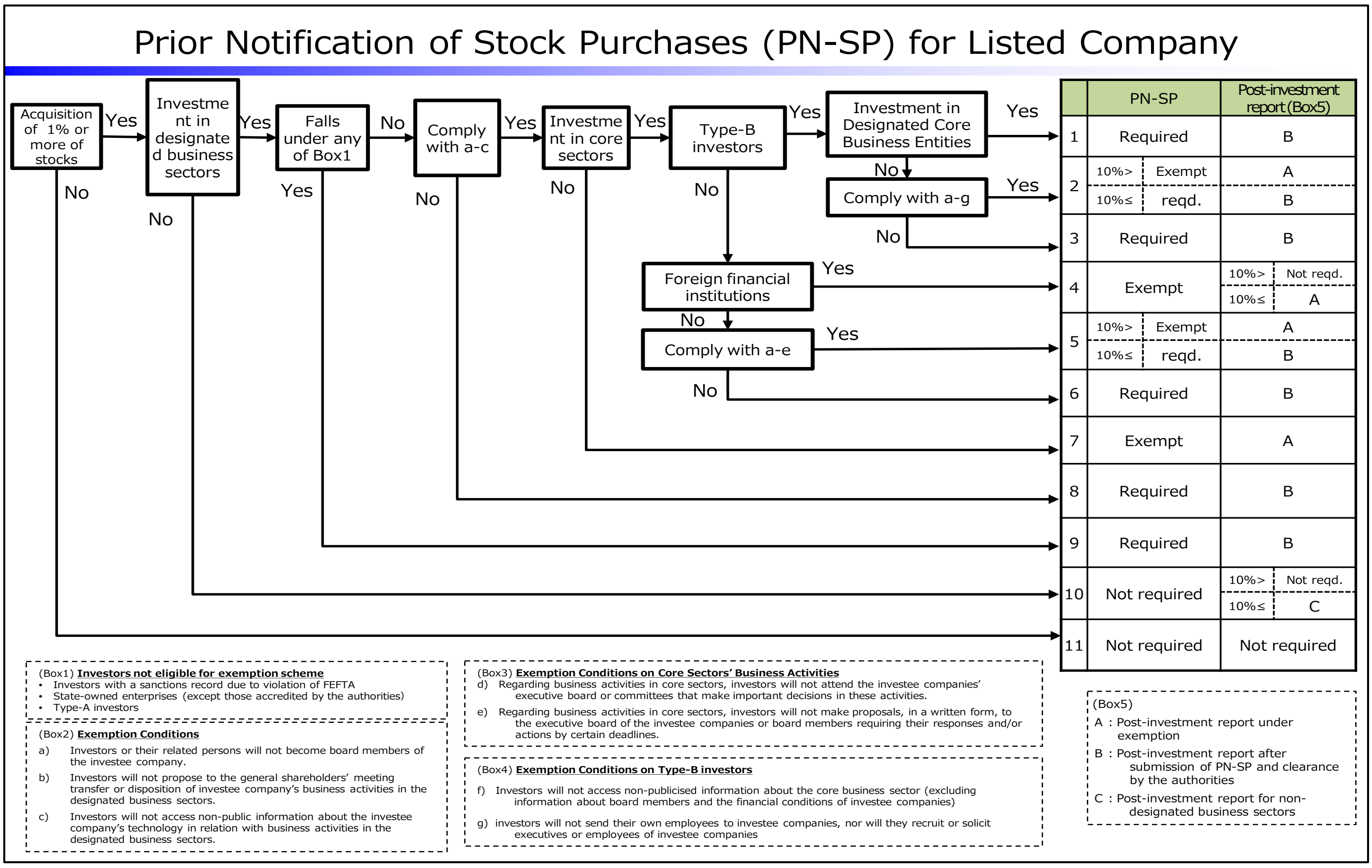
Among the above "Types of investment transactions that cannot use the prior notification exemption system", "Investment transactions that aim to make it difficult for business operations in designated business sectors to be conducted continuously and stably" are defined in Article 3-2, Paragraph 2, Item 4 of the Cabinet Order. If an inward direct investment transaction that can use the prior notification exemption system is accompanied by an action to endanger the survival of business operations for any of designated business sectors, the transaction may not be subject to the prior notification exemption system because the premise for allowing prior exemption is not valid. Whether or not this applies may be determined depending on the specific circumstances of each case, such as the nature of business operations, the manner of the relevant investors' conduct, and the impact of the conduct expected by the investor on the implementation of business operations. For example, this item may cover a case in which a foreign investor acquires substantial shares in a company for the purpose of making a proposal leading to the downsizing of business operations that are required to be implemented continuously and stably from the viewpoint of national security, etc., thus indicating that the investor's influence accompanying the share acquisition may compel the company to have no choice but to realize the investor's proposal.

As for "investment transactions that have the purpose of committing actions that are contrary to complying with the exemption conditions," Ministerial Order on Inward Direct Investment delegated from Article 3-2, Paragraph 2, Item 5 of the Cabinet Order stipulates the following investment transactions as those indicating that investors have no willingness to comply with the exemption conditions: an inward direct investment transaction for a foreign investor who aims to become a director or auditor of a target company, and an inward direct investment transaction for a foreign investor who aims to propose a business transfer at a general meeting of shareholders at a target company. The stipulation means that as long as foreign investors comply with the exemption conditions and exemption conditions on the core business sectors' activities and exemption conditions on Type-B investors, they are considered to be able to ensure national security in the same way as if prior notification is made. "Investment transactions that have the purpose of committing actions that are contrary to complying with the exemption conditions" are not qualified to use the prior notification exemption system because such transactions are recognised as likely to lead to the risk of harming national security, etc.

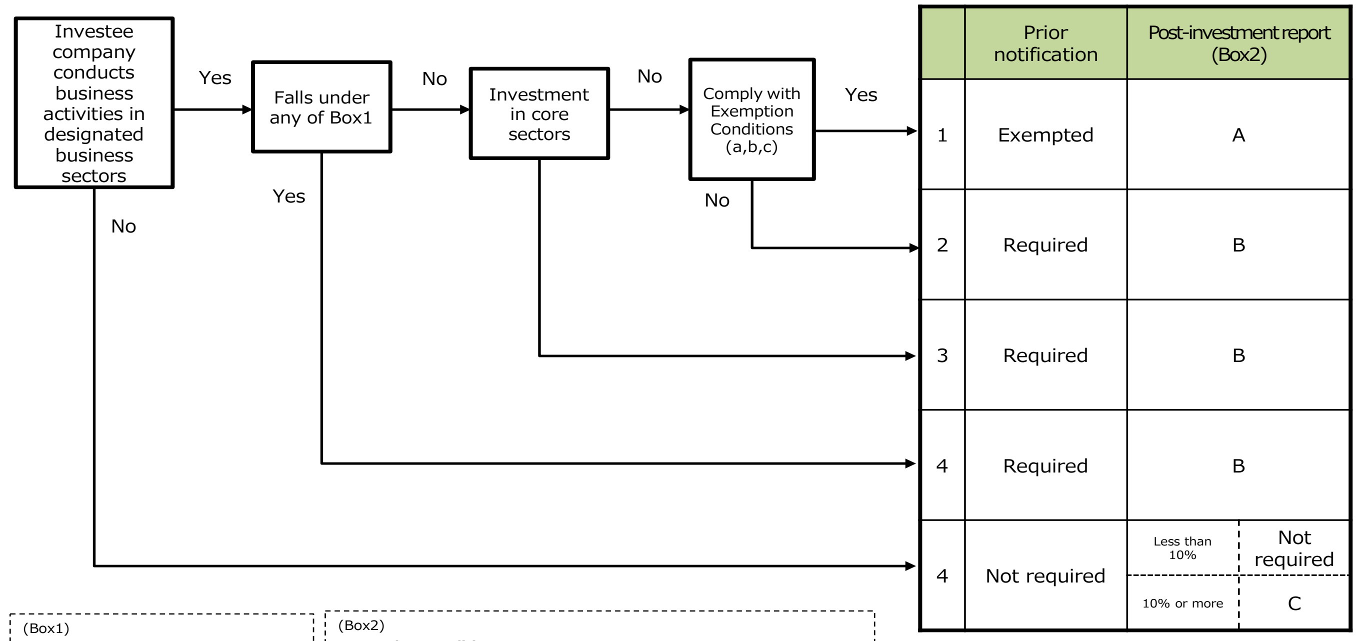
The prior notification exemption system was introduced through the FEFTA revision in 2019 from the perspective of further promoting inward direct investment that leads to the sound development of the economy and is an important system from the perspective of securing open markets. Meanwhile considering the current situation surrounding economic security, it is important to take appropriate measures against investment transactions that may damage national security, etc. It is important for the authorities to strive for the appropriate operation and enforcement of the foreign investment screening system, including the prior notification exemption system, by taking strict measures against cases that may fall under this item.

(7) Flowchart of Prior Notification of Stock Acquisition, Certain Actions (listed, unlisted, investment funds)

There are several types of prior notification and post-investment report requirements related to the foreign investment screening system under FEFTA, depending on specific actions, etc. A flowchart of such notification is as follows:



Prior Notification of Stock Purchases (PN-SP) for Unlisted Companies



(Box1)
Investors not eligible for exemption scheme

- Investors with a sanctions record due to violation of FEFTA
- State-owned enterprises (except those accredited by the authorities)
- Type-A investors

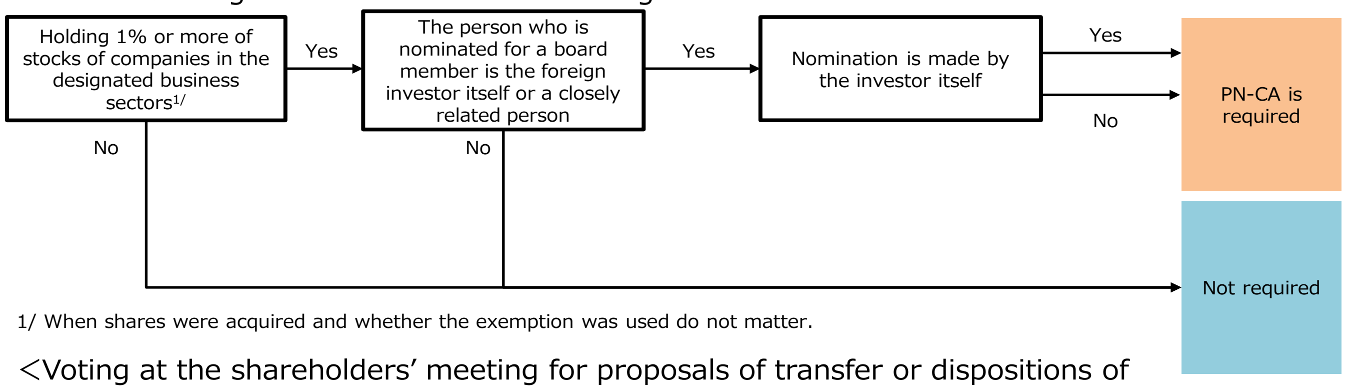
(Box2)
Exemption Conditions

a) Investors or their related persons 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 about the investee company's technology in relation with business activities in the designated business sectors.

(Box3)
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

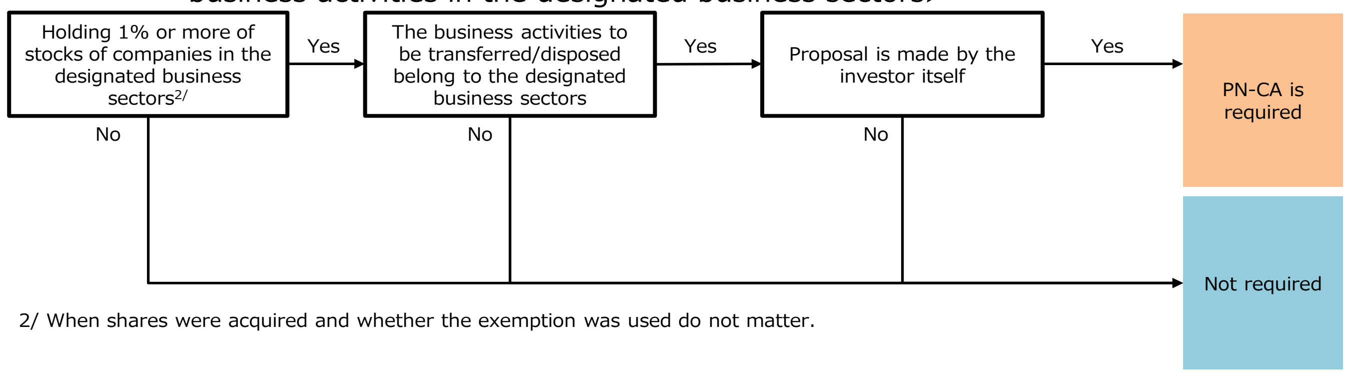
Prior Notification of Certain Actions (PN-CA) for Listed Companies

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



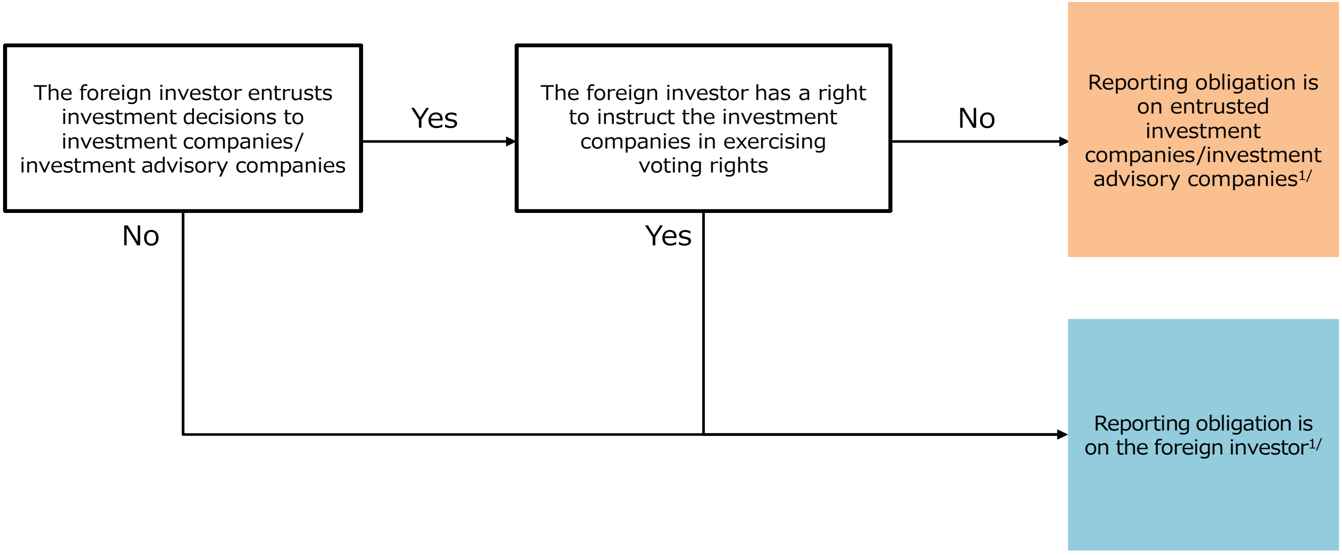
1/ When shares were acquired and whether the exemption was used do not matter.

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



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

Reporting Obligation for Investment Funds



1/ If investment companies/investment advisory companies fall within the definition of "foreign financial institution", such investment companies/investment advisor companies are eligible for the exemption from the PN-SP requirement.

<Column 4> Ensuring Economic Security and Promoting Sound Investment

Ensuring Economic Security

Until now, Japan has contributed to global economic growth based on the principle of a free and open economy. However, with the changes in the socio-economic structure such as progress of further internationalisation, rapid technological innovation, and the digitisation of industrial infrastructure, serious issues have come to light that need to be addressed urgently. These include the emergence of vulnerabilities in the supply chain, the increasing threat of cyber-attacks on businesses in key infrastructure sectors, and intensifying competition for supremacy in advanced technologies.

Accordingly, Japan enacted the Economic Security Promotion Act in May 2022. In order to respond to urgent issues, the act created four systems: (1) a system to ensure the stable supply of critical products, (2) a system to ensure the stable provision of essential infrastructure services, (3) a system to support the development of advanced critical technologies, and (4) a system to ensure the non-disclosure of selected patent applications.

With regard to (1), the government intends to ensure their stable supply of “specified critical products”, which are essential for the survival of the people or on which their lives and economic activities widely depend, through support to private sector entities.

The foreign investment screening system shares the same objective as the “system for ensuring the stable supply of critical materials” under the Economic Security Promotion Act, albeit with different means. In 2023 and 2024, as mentioned in Column 2, the Public Notices of designated business sectors were amended to include manufacturing industries related to these “specified critical products'”. In the Basic Policy of the Economic Security Promotion Act (approved by the Cabinet on 30 September 2022), it is emphasised that the government needs to be more involved in both support and regulation for certain economic security issues. With this in mind, Japan is working to strengthen its economic security by coordinating the Economic Security Promotion Act, which is a support measure, and FEFTA which is a regulatory measure.

The government has continuously reviewed its economic security policies. More than three years after the enactment of the Economic Security Promotion Act , an amendment to the Act was enacted in June 2026 to enable prompt and robust response to rapidly changing international circumstances and newly emerging challenges.

The foreign investment screening system is one of the key tools for ensuring economic security. In 2025, subordinate legislation under FEFTA was amended to revise the application of the prior notification exemption scheme to foreign investors that have risk profiles similar to those of foreign governments. Furthermore, the Act partially amending FEFTA was enacted in May 2026 to further upgrade the foreign investment screening system.

Promoting Sound Investment

Foreign direct investment in Japan contributes to strengthening the growth potential of the Japanese economy and revitalising local communities through innovation resulting from the integration of domestic and foreign resources, as well as through expanded investment and job creation in local communities. Therefore, further promoting sound inward direct investment is an important policy issue. In particular, in order to realise strong growth in the Japanese economy, it is necessary to stimulate domestic investment, which remains significantly inadequate, while building an economy trusted by global investors and creating a virtuous cycle that attracts overseas capital.

For this reason, the Program for Promotion of Foreign Direct Investment in Japan(2026), adopted at the Japan Investment Promotion Conference in June 2026, compiles related measures in five areas: (1) promoting new and follow-on investments, (2) improving the investment environment, (3) improving the business and living environments, (4) securing highly skilled human resources to support FDI-related business in Japan, and (5) strengthening public relations and promotional activities. These measures are aimed at achieving the targets of increasing Japan’s inward FDI stock to 120 trillion yen by 2030, and to 150 trillion yen as early as possible in the first half of the 2030s.The government will continue to work steadily toward expanding inward FDI.

FEFTA aims to ensure the normal development of foreign transactions and contribute to the sound development of the Japanese economy by imposing only the minimum necessary controls or adjustments, based on the principle that foreign transactions should be free. From this perspective, in the operation and review of the investment screening system, the government seeks to balance ensuring economic security with promoting sound inward direct investment through a risk-based and calibrated approach.

<Column 5> Factors to be Considered in Screening

The FEFTA foreign investment screening system reviews whether an inward direct investment transaction, as stipulated in Article 27 of FEFTA, satisfies any of the four requirements stipulated in Article 27, Paragraph 3, Item 1 of FEFTA ((1) impairing national security, (2) disturbing the maintenance of public order, (3) hindering the protection of public safety, and (4) affecting the smooth functioning of the Japanese economy significantly and adversely. It also screens whether a Specified Acquisition, as stipulated in Article 28 of FEFTA, falls under the category of Specified Acquisitions that are highly likely to cause a situation that would compromise national security. It is important to disclose what the screening authorities will focus on in the screening in order to improve the transparency of the procedure and predictability for investors.

Given the above, the Ministry of Finance and the competent ministries for the business have published "Factors to be considered in authorities' screening" as follows:

A) Factors regarding business operations of an investment target company: "the degree of impact of the investment on maintaining the production base and technologies in the business sectors that relate to the protection of national security, maintenance of public order, or safeguard of public safety;" "the possibility of leakage of technologies or information that relate to the protection of national security, maintenance of public order, and safeguarding of public safety, or use of these technologies or information against the objectives of protection of national security, maintenance of public order, or safeguard of public safety;" "the degree of impact of the investment on (1) terms and conditions of supply, (2) stable supply, or (3) quality of goods or services that relate to protection of national security, maintenance of public order, or safeguard of public safety, in ordinary and emergency situations".

B) Factors regarding the attributes of a foreign investor: "attributes of the foreign investor, including its capital structure, beneficial ownership and business relationships, and the foreign investor's plan and track record of its behaviours relating to the investment;" "the degree of impact on the protection of national security, maintenance of public order, safeguard of public safety, or smooth functioning of the Japanese economy from international treaties and domestic laws and regulations with which the foreign investor needs to comply;" "track record of the foreign investor's compliance with FEFTA and equivalent or similar legislation of other jurisdictions.

C) Factors regarding details of a foreign investor's investment and engagement in the investment target company: "the degree of impact of the investment on the investee company or the borrowing company in view of the number and percentage share of shares, equities, voting rights, subscription certificates or corporate bonds that have been acquired or are to be acquired by the foreign investor, or the amount and terms and conditions of the outstanding loan by the foreign investor;" "the possibility, and the degree of impact on the protection of national security and other domains, of the foreign investor's taking the following actions: (1) becoming, or having the investor's closely-related persons become, auditors or board members of the investee company, (2) proposing to the general shareholders meeting transfer or disposition of the investee company's business activities in the designated business sectors, and (3) obtaining, or proposing the disclosure of, secret non-public information about the investee company's technology and systems, or proposing changes in the investee company's internal rules, etc. on managing such information;"

During the screening, the authorities comprehensively consider these factors while checking the contents of the notification and public, open-source information.

[Reference]
Ministry of Finance website: Factors to be considered in authorities' screening of prior notification for Inward Direct Investment and Specified Acquisition under the Foreign Exchange and Foreign Trade Act
https://www.mof.go.jp/english/policy/international_policy/fdi/gaitamehou_20200508.htm (in English)

3. Upgrading of the Foreign Investment Screening System

(1) The Act Partially Amending the Foreign Exchange and Foreign Trade Act (promulgated on June 5, 2026)

The supplementary provisions of the Act amending the FEFTA, which was enacted in 2019 and brought into force in 2020, stipulate that, when five years have elapsed since its entry into force, the Government shall review the system in light of its implementation and, where deemed necessary, take appropriate measures based on the results of such review. As five years have elapsed since the amended Act entered into force, the Council on Foreign Transactions reviewed the implementation of the Act to date and considered the future framework of the foreign investment screening system, taking into account changes in the national security environment. Based on the recommendations of the Council, the Government submitted to the Diet the Bill for Partial Amendment of the Foreign Exchange and Foreign Trade Act on March 17, 2026. The Act was enacted on May 29, 2026 and promulgated on June 5, 2026.

The key amendments are as follows:

(a) Risk mitigation measures (measures intended to eliminate risks that could impair national security) are explicitly included as items to be reported in a prior notification, and related procedures are established.

(b) Indirect investments—where a foreign investor indirectly acquires shares or equity interests in a Japanese company by acquiring control of a foreign corporation that already holds such shares or equity interests—are added to the scope of regulated inward direct investment.

(c) Domestic investment activities conducted under the control or strong influence of, and for the benefit of, foreign persons belonging to specified higher-risk categories become subject to prior notification and other relevant requirements.

(d) New measures are introduced to address risks arising from investments in non-designated business sectors by foreign investors belonging to specified higher-risk categories, in connection with changes in international circumstances and other developments.

(e) The Minister of Finance and the competent Ministers are required to seek the opinions of the heads of relevant administrative authorities, where deemed necessary from the perspective of national security and other interests protected under FEFTA in the course of screening inward direct investments and related transactions.

Although further details will be finalized in subordinate legislation, the amended system will adopt a risk-based and differentiated approach. For example, where investors do not fall within specified higher-risk categories (namely, categories of investors that are not eligible for the prior-notification exemption scheme), notification thresholds will be relaxed under item (b), and the regulations will not be applied under items (c) and (d).

In addition, in light of the recent increase in the number of prior notifications, the Government intends to review subordinate legislation and optimize the scope of sectors and activities subject to prior notification so as to ensure that they appropriately reflect the level of risk. The objective is both to achieve more efficient and effective screening and to promote sound investment. Specifically, the planned revisions include: (i) exempting from the prior notification requirement consent to the reappointment of the same director, where there have been no material changes, among shareholder actions that currently require prior notification; and (ii) rationalizing the designation of sectors under the category of “Information and Communications Technology-Related Industries” by limiting coverage to activities for which designation is genuinely necessary from the perspective of cybersecurity and other national security considerations.

With regard to the amended Act, item (e) entered into force on the date of promulgation. All other provisions will enter into force on a date to be specified by Cabinet Order within one year from the date of promulgation.

Overview of the Act Partially Amending the Foreign Exchange and Foreign Trade Act (FEFTA)

- **To further promote sound inward direct investment while ensuring effective responses to investments that may pose risks to national security and other protected interests, the Government upgrades the inward direct investment screening system in light of implementation experience and changes in the national security environment.**

I. Improving the Efficiency and Effectiveness of Screening in Light of Implementation Experience

1．Clarifying risk mitigation measures

- Risk mitigation measures (measures intended to eliminate risks that could impair national security) are explicitly included as items to be reported in a prior notification.
- Where notified risk mitigation measures are to be modified or not implemented, a foreign investor is required to submit a notification of change, and the proposed change will be subject to review.
- It is clarified that risk mitigation measures may be recommended or ordered following the review of a prior notification or a notification of change.

2．Addressing indirect investments

- Indirect investments—where a foreign investor indirectly acquires shares or equity interests in a Japanese company by acquiring control of a foreign corporation that already holds such shares or equity interests—are added to the scope of regulated inward direct investment.

(Note) Through subordinate legislation, the scope of sectors and activities subject to prior notification will be further refined under a risk-based and differentiated approach.

II. Addressing Changes in the National Security Environment

1. Capturing investment activities under the control or influence of foreign governments and other high-risk foreign persons

- Domestic investors that conduct investment activities under the control or strong influence of, and for the benefit of, non-residents are deemed to be foreign investors. Such deemed foreign investors become subject to prior notification or other relevant requirements if they are under the control or strong influence of foreign persons belonging to specified higher-risk categories.

2．Introducing measures to address risks associated with investments in non-designated business sectors

- The authorities may require reports on investments in non-designated business sectors by foreign investors belonging to specified higher-risk categories, where, in connection with changes in international circumstances or other developments, it becomes necessary to determine whether such investments pose risks to national security. Where necessary, recommendations and orders may be issued, including for the disposal of shares.

III. Strengthening Inter-Ministerial Coordination

- The Minister of Finance and the competent Ministers are required to seek the opinions of the heads of relevant administrative authorities, where deemed necessary from the perspective of national security and other interests protected under FEFTA in the course of screening inward direct investments and related transactions.

(Note) This provides a statutory basis for an inter-ministerial framework of the Japan Foreign Investment Committee (JFIC).

Effective Date

A date specified by Cabinet Order within one year of promulgation (Section III entered into force on the date of promulgation).

(2) Establishment of Japan Foreign Investment Committee (JFIC)

Under FEFTA, the review of inward direct investments is conducted by the Ministry of Finance and the competent ministries responsible for the relevant business sectors. However, it has become essential to assess the national security risks associated with investment from an inter-ministerial perspective.

Against this background, and building on the 2026 amendment to FEFTA (see item (e) of Section (1) above), the Japan Foreign Investment Committee (JFIC) was established on 29 June 2026. JFIC is co-chaired by the Ministry of Finance and the National Security Secretariat of the Cabinet Office and comprises the Ministry of Foreign Affairs, the Ministry of Economy, Trade and Industry, and the Ministry of Defense as its core members, with the participation of competent ministries. JFIC will facilitate sharing of screening know-how and strengthen information-sharing, including with respect to the risk profiles of foreign investors, with a view to enhancing the Government's overall screening capabilities. JFIC is also expected to facilitate inter-ministerial assessments of the significance of businesses and technologies of Japanese investee companies in relation to the supply chains of defence equipment and critical materials.

Undertaking such inter-ministerial and consistent screening will enhance predictability for foreign investors and thereby help strike a balance between promoting sound investment and ensuring economic security.

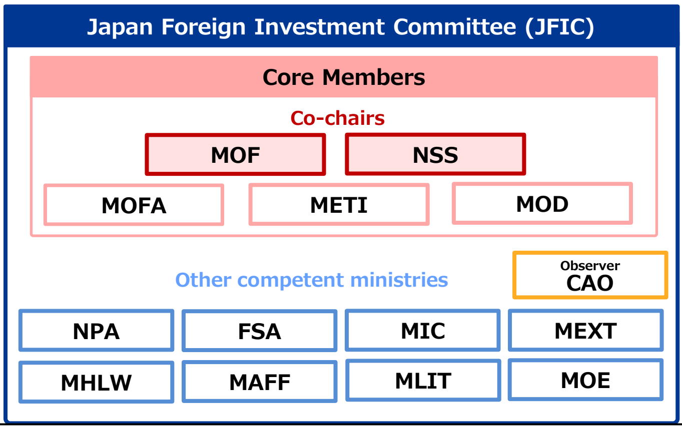
【Reference】

Ministry of Finance website: Japan Foreign Investment Committee (JFIC) (available in Japanese only):

https://www.mof.go.jp/policy/international_policy/gaitame_kawase/fdi/20260618215004.html

Japan Foreign Investment Committee (JFIC)

- ✓ **The Japan Foreign Investment Committee (JFIC) was established to strengthen the inter-ministerial coordination framework** for foreign direct investment screening and **enhance the Government's ability to address national security risks.**
- ✓ **The Ministry of Finance** (responsible for the foreign investment screening system) and **the National Security Secretariat** (responsible for overall national security coordination) **serve as co-chairs, the Ministry of Foreign Affairs (MOFA), the Ministry of Economy, Trade and Industry (METI) and the Ministry of Defense (MOD) act as core members**, and other competent ministries participate as members. **Cooperation with the intelligence community is also enhanced** with respect to information concerning the risk profiles of foreign investors.
- ✓ **Director-General-level officials serve as the principal members of the Committee**, while routine operations are handled by Director-level officials. **Relevant ministers may participate when necessary.**
- ✓ Cases to be considered by the JFIC are identified based on a comprehensive assessment of factors including: (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), (iii) **the nature of the foreign investment** (e.g. the level of voting rights to be acquired).



(Reference) The Committee on Foreign Investment in the United States (CFIUS)
The Committee on Foreign Investment in the United States (CFIUS) is an interagency committee authorized to review certain transactions involving foreign investment in the United States and certain real estate transactions by foreign persons, in order to determine the effect of such transactions on the national security of the United States. The member agencies of CFIUS include the Department of the Treasury (Chair), the Department of Justice, the Department of Homeland Security, the Department of Commerce, the Department of Defense, the Department of State, the Department of Energy, the Office of the U.S. Trade Representative, and the Office of Science and Technology Policy. (The Office of the Director of National Intelligence and the Department of Labor are non-voting, ex-officio members of CFIUS.)

(3) Activities of Regional Branches

Many small and medium-sized enterprises across Japan's regions possess sensitive or critical technologies. As the economic security environment becomes increasingly challenging, it has become ever more important to collect and analyse information on developments relating to these companies and on investment trends involving them.

"Basic Policy on Economic and Fiscal Management and Reform 2022: For a New Form of Capitalism—Achieving a Sustainable Economy by Harnessing Processes to Overcome Challenges to Drive Growth" ("Basic Policy 2022") stated that "the government will enhance information collection, analysis, monitoring, etc., including at local government offices," "seek to strengthen its organisational structure for promoting economic security together with relevant ministries and agencies," and "in order to strengthen intelligence capabilities, the Government will develop necessary mechanisms such as collecting and analysing information." Subsequent Basic Policies have also called for efforts to ensure the effectiveness of the foreign investment screening system.

Based on these policies, the Regional Finance Bureaus, which are regional branches of the Ministry of Finance, have assigned officials in charge of the foreign investment screening system since 2022. In order to prevent violations arising from a lack of awareness of the foreign investment screening system, the Regional Finance Bureaus have been disseminating information about the system by holding briefings and establishing consultation and information-sharing channels. Also, the Regional Finance Bureaus play an important role from the viewpoint of accurately preventing the leakage of technological information related to national security, etc., and from the perspective of ensuring the appropriate enforcement of the system. In 2025, the Regional Finance Bureaus initiated collaboration with regional branches of other ministries, such as the Bureaus of Economy, Trade and Industry, because it is critical for the Regional Finance Bureaus to efficiently identify and select companies that may face economic security risks within their jurisdictions. Through these efforts, the Regional Finance Bureaus will enhance the efficiency and effectiveness of information collection and monitoring and strengthen the framework for promoting economic security.

(4) Cooperation with Relevant Organisations Overseas

In accordance with FEFTA provisions concerning cooperation with foreign authorities (Article 69-4[3]), the authorities have been placing particular emphasis on strengthening cooperation with overseas counterparts, including through the promotion of information exchange with foreign authorities. Specifically, through both bilateral and multilateral cooperation, the authorities have been promoting the sharing of expertise and best practices relating to foreign investment screening systems. Through these exchanges, learning about how foreign authorities operate their screening regimes provides valuable insights for considering how Japan's foreign investment screening system can be further refined and maintained at a high international standard.

In light of the evolving international environment surrounding Japan and the need to respond swiftly and effectively to emerging economic security challenges, it is essential to continue and further develop these cooperative efforts. Going forward, it will be important to further enhance cooperation with foreign counterparts and actively promote cooperation in the field of foreign investment screening.

A comparison with major foreign jurisdictions is provided in the table below.

Compared with major foreign investment screening systems, Japan's mandatory prior-notification threshold for listed companies is set at a very low level. While other G7 countries generally apply thresholds of around 10% or higher, Japan's threshold is set at 1%. This reflects the fact that, under Japan's Companies Act, shareholders holding 1% or more of the voting rights of a company are entitled to submit proposals at shareholders' meetings. Of course, not all inward direct investments of 1% or more are subject to prior-notification requirements, as Japan's system includes a prior-notification exemption scheme. Nevertheless, compared with those of other jurisdictions, Japan's prior notification requirements may be regarded as having relatively broad coverage. In order to address national security risks appropriately, prior notifications submitted under this framework constitute an important source of information not only during the screening process itself, but also for post-investment monitoring following the completion of screening and the implementation of the investment, as well as for monitoring investors that have used the prior-notification exemption scheme. The authorities therefore place particular emphasis on strengthening monitoring activities so as to identify non-compliant cases in a timely manner and take necessary enforcement measures, including the issuance of orders, where appropriate.

[3] Article 69-5 of FEFTA as amended by the 2026 amendment.

provisional

Summary of inward FDI screening system in each country

		US	UK	France	Germany	Italy	Canada	Japan
Mandatory pre-screening	Thresholds	25% / No numerical thresholds	25%	10%	10% / 20% (by sector)	3% / 10% (by sector)	33% (for companies above a certain size)	1%
	Sectors subject to review	Designated sectors	Designated sectors	Designated sectors	Designated sectors	Designated sectors	All	Designated sectors
Corrective intervention		Review, divestiture orders etc. are possible even if they are not subject to mandatory pre-screening	Review, divestiture orders etc. are possible even if they are not subject to mandatory pre-screening	Divestiture orders etc. are possible for cases subject to mandatory pre-screening	Review, divestiture orders etc. are possible when acquiring more than 25% of shares even if they are not subject to mandatory pre-screening	Divestiture orders etc. are possible for cases subject to mandatory pre-screening	Review, divestiture orders etc. are possible even if they are not subject to mandatory pre-screening	Even if they are not subject to mandatory pre-screening, if investors who use prior notification exemption fail to comply with exemption conditions, divestiture orders etc. are possible
Number of mandatory pre-screenings		325 (including voluntary filings)	1,135	392	339	660	10	3,401

(note 1) Prepared based on the published data of each country. Thresholds and other information in the mandatory pre-screening row are for listed companies. The number of mandatory pre-screenings is based on the most recent published data at the time of writing for each country. (US, France and Italy, Jan-Dec 2024; Canada Apr 2024-March 2025; Germany, Jan-Dec 2025; UK and Japan, Apr 2025-March 2026)

(note 2) For US, declaration or notice is required for the following transactions which are designated from the viewpoint of national security; 1) the acquisition of 25% or more voting-interests of TID US Business (critical technology (T), critical infrastructure (I), sensitive personal data of U.S. citizens (D)) by a foreign person who is owned their 49% or more voting interest a foreign government , or 2) the transaction of critical technology for which authorization of relevant US government authority is required for its export to a certain person such as a party of the transaction.

(note 3) For France, the number of mandatory pre-screening includes the number of request for opinion as a procedure for inquiring whether intended transaction is covered for application for authorization.

(note 4) For Canada, the number of mandatory pre-screenings is the number of applications subject to net benefit review. In addition, there were 1,128 notifications which can be provided up to 30 days after the investment has been made.

(note 5) For Japan, there is a prior notification exemption system (blanket exemption for foreign financial institutions (regardless of acquisition ratio); general exemption for general investors (acquisition ratio: 1%-10%)) only if investors comply with certain conditions.

4. Status of System Implementation

(1) Prior Notifications

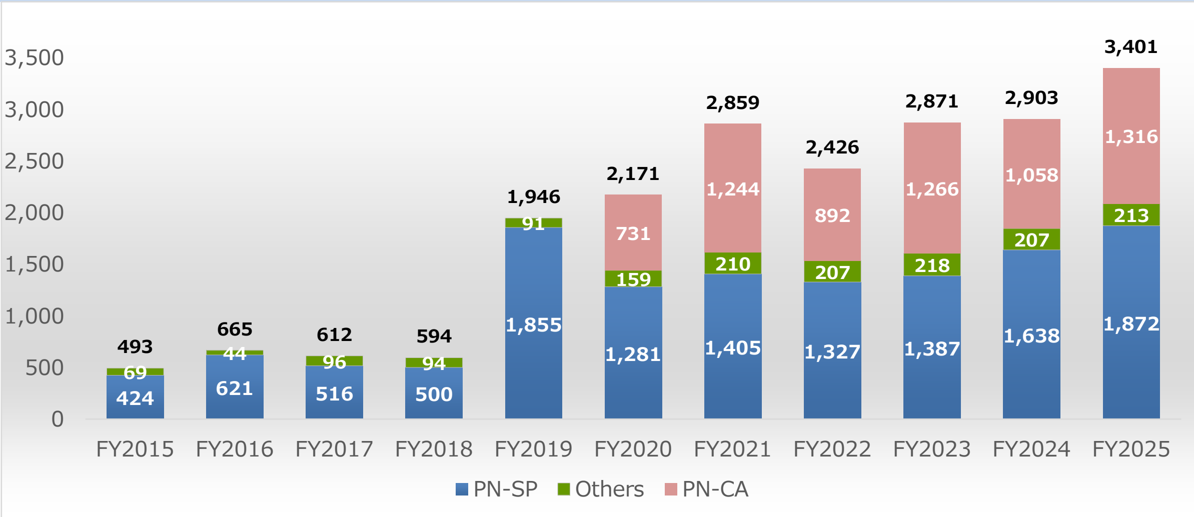
Prior notifications are the bases for the enforcement of the foreign investment screening system and important sources of information that is used not only for screening but also for ex post facto monitoring and planning under the system. In particular, Japan's foreign investment screening system requires more prior notifications than those in other countries (see Section 3 (4) above). For this reason, how to deal with foreign investors' failure to submit prior notifications (non-notified cases) is one of the important policy issues related to the foreign investment screening system (see (7) below).

Recent prior notification statistics are as follows.

Number of Prior Notifications from FY2015 to FY2025

- The 2019 amendment of the Foreign Exchange and Foreign Trade Act has lowered the threshold for prior notification for stock purchases (PN-SP) with regard to the acquisition of a listed company's stocks from 10% to 1%. The amendment also introduced mandatory prior notification for certain actions (PN-CA), namely, (i)voting at the shareholder's meeting for nomination of the foreign investor itself or a related person as a board member of the investee company and (ii)voting at the shareholder's meeting for a proposal, made by those foreign investors, to transfer or dispose of the investee company's business activities in the designated business sectors. On the other hand, the amendment introduced an exemption scheme for PN-SP for investors who comply with certain conditions.
- The number of prior-notifications for FY2025 is as follows.

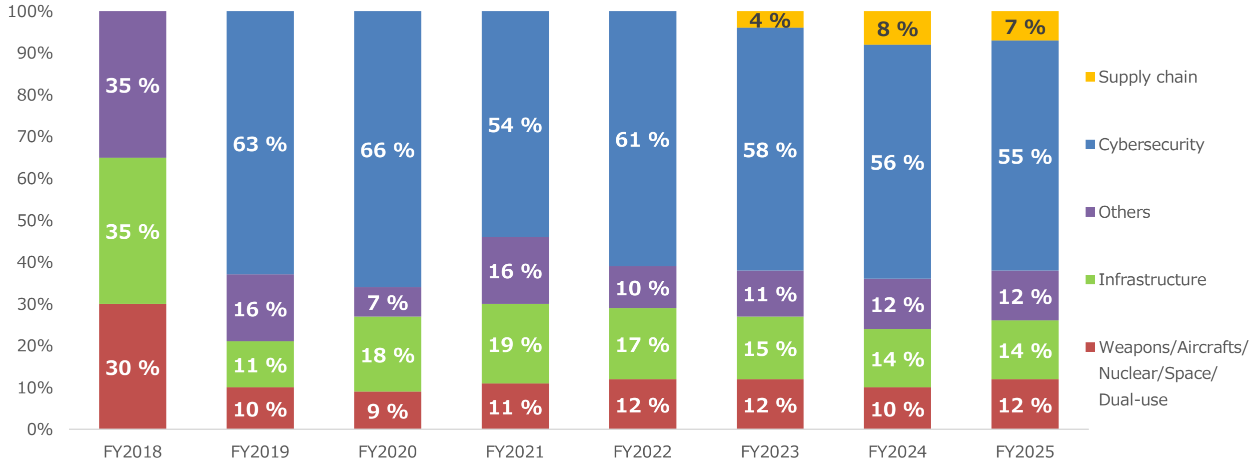
(Note: The number for 2020 is not comparable with other years due to the full implementation of FEFTA in June 2020.



(Note) **Others** include prior notifications for change of business purposes, making loans, bond acquisition, transfers of shares, establishment of a branch office, acquisitions of business and joint exercise of voting rights, etc.

Prior Notifications by Business Sector

- In FY2025, sectors related to cybersecurity (e.g. data processing and information services, software services, integrated circuits, semiconductor memory media, etc.) which were added to the designated business sectors in August 2019, accounted for 55%.



Reference : Designated Business Sectors

- Cybersecurity（Data processing/software services, Storage/memory/processing device etc.)
- Weapons
- Aircraft
- Nuclear facilities
- Space
- Dual-use technologies
- Metal mining etc. of critical minerals
- Construction service business etc. which improves or maintains port facilities on Designated Remote Islands

*added in Nov 2021

- Electricity
- Gas
- Telecommunications
- Water supply
- Railways
- Petroleum
- Heat supply
- Broadcasting
- Public transportation
- Security services
- Biological chemicals
- Agriculture, Forestry and Fisheries
- Leather manufacturing
- Air transportation
- Maritime transportation
- Pharmaceutical manufacturing
- Specially-controlled medical devices manufacturing

*added in July 2020

- Supply chain *added in May 2023 & August 2024

(Note 1) The prior notifications for companies which conduct business in multiple business sectors are counted in each of the sectors. Please refer to the next slide for the numbers of each sector.
(Note 2) The figures for FY2019 and prior show a breakdown of PN-SP, while FY2020 onwards shows a breakdown for all prior notifications.

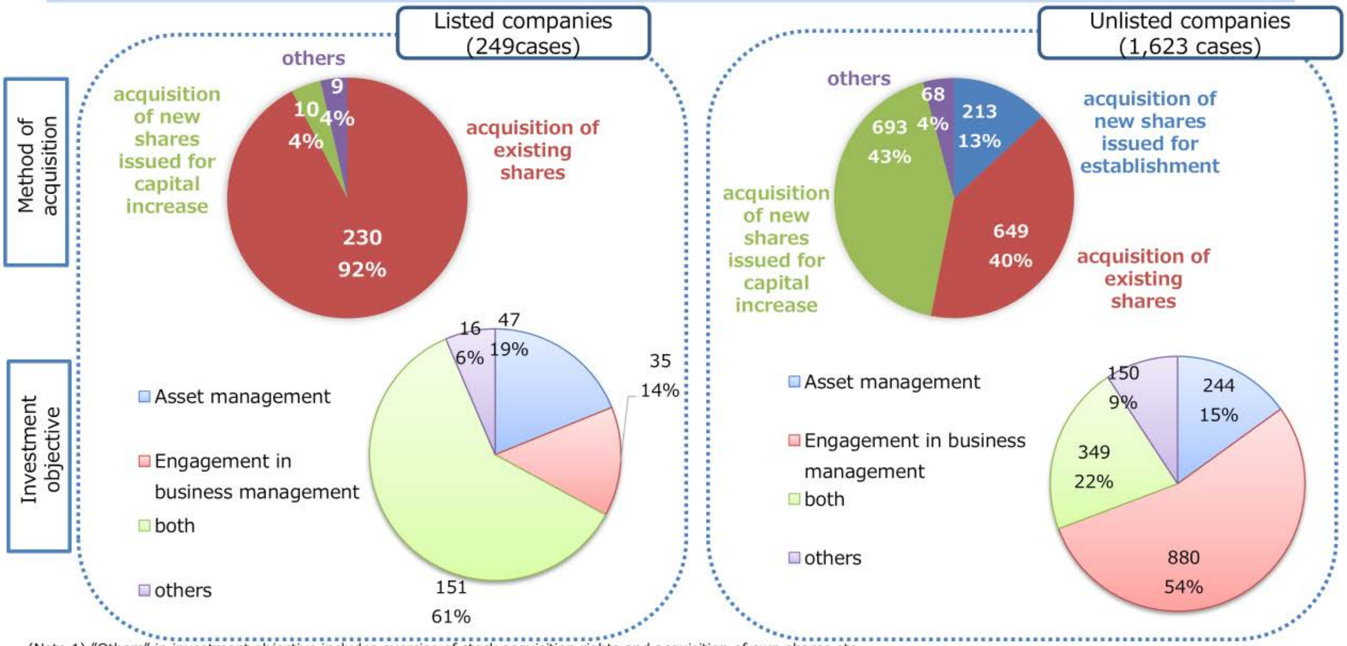
(Reference) The Number of Business Sectors in Prior Notifications

	FY2020				FY2021				FY2022				FY2023				FY2024				FY2025			
	PN-SP	Others	PN-CA	Total	PN-SP	Others	PN-CA	Total	PN-SP	Others	PN-CA	Total	PN-SP	Others	PN-CA	Total	PN-SP	Others	PN-CA	Total	PN-SP	Others	PN-CA	Total
Weapons, etc.	100	6	59	165	196	10	134	340	121	9	103	233	175	14	109	298	148	11	82	241	207	15	94	316
Aircraft	18	0	4	22	11	2	10	23	17	2	18	37	19	0	7	26	31	2	14	47	66	4	21	91
Nuclear facilities	2	0	2	4	2	1	3	6	10	0	7	17	7	1	8	16	17	0	5	22	10	2	9	21
Space	12	0	4	16	25	1	9	35	17	0	10	27	22	3	28	53	30	0	1	31	62	4	11	77
Cybersecurity	953	56	590	1,599	994	105	863	1,962	984	104	696	1,784	952	103	978	2,033	1,207	111	754	2,072	1,372	115	956	2,443
Metal mining etc. of critical minerals	-	-	-	-	4	0	0	4	4	0	0	4	7	0	0	7	14	0	0	14	8	2	3	13
Construction service business etc. which improves or maintains port facilities on Designated Remote Islands	-	-	-	-	4	0	0	4	8	6	0	14	5	3	0	8	0	0	0	0	0	0	0	0
Secure Stable Supply Chains	-	-	-	-	-	-	-	-	-	-	-	-	82	10	69	161	194	16	93	303	171	19	86	276
Electricity/Gas, etc.	255	87	44	386	328	96	83	507	225	72	77	374	254	85	58	397	247	76	44	367	261	66	62	389
Telecommunications	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Broadcasting	9	0	2	11	14	0	16	30	3	1	0	4	9	0	15	24	6	0	8	14	23	1	9	33
Water supply	1	0	2	3	2	0	0	2	3	0	2	5	2	0	0	2	0	0	0	0	5	0	0	5
Railways	1	0	0	1	3	1	4	8	26	9	1	36	18	3	0	21	26	0	0	26	21	0	0	21
Public transportation	0	0	0	0	0	0	0	0	2	0	0	2	5	0	1	6	6	0	0	6	11	0	4	15
Biological chemicals/Pharmaceutical manufacturing, etc.	27	4	45	76	69	3	72	144	24	5	80	109	39	12	96	147	62	3	80	145	61	9	48	118
Security services	12	0	9	21	57	1	27	85	27	1	18	46	35	1	27	63	56	4	38	98	58	1	32	91
Agriculture, Forestry and Fisheries	37	5	11	53	69	0	62	131	47	5	44	96	59	2	57	118	81	4	21	106	70	3	31	104
Petroleum	15	1	22	38	75	2	54	131	28	3	47	78	46	3	33	82	41	1	67	109	26	5	54	85
Leather manufacturing	2	0	0	2	0	0	4	4	5	0	5	10	10	1	0	11	5	0	5	10	14	1	0	15
Air transportation	4	1	2	7	2	1	4	7	3	3	0	6	3	0	4	7	1	4	1	6	0	1	3	4
Maritime transportation	5	0	6	11	49	1	162	212	3	0	23	26	8	0	32	40	9	0	80	89	20	1	75	96
Total number of PN	1,281	159	731	2,171	1,405	210	1,244	2,859	1,327	207	892	2,426	1,387	218	1,266	2,871	1,638	207	1,058	2,903	1,872	213	1,316	3,401
Sum of sectors in PN	1,453	160	802	2,415	1,904	224	1,507	3,635	1,557	220	1,131	2,908	1,757	241	1,522	3,520	2,181	232	1,293	3,706	2,466	249	1,498	4,213

(Note 1) The prior notifications for companies which conduct business in multiple business sectors are counted in each of the sectors.
(Note 2) “PN-SP” is Prior Notification for Stock Purchases. “Others” is change of business purpose, making of loan, bond-acquisition, transfers of shares, establishment of branch office, acquisition of business and joint exercise of voting rights, etc. “PN-CA” is Prior Notification for Certain Actions.
(Note 3) Telecommunications businesses are counted as Cybersecurity from FY2019 onwards.

PN-SP by Acquisition Method and Investment Objective (FY2025)

- The number of PN-SP for listed companies is 249, far smaller than that for unlisted companies, 1,623.
- Regarding methods of acquisition, approximately 90% of the acquisitions of listed companies were made through acquisitions of existing shares, including from the stock market. In contrast, unlisted companies' shares are largely acquired by foreign investors through capital increases.
- Regarding investment objectives, there is a higher percentage of "Engagement in business management" for unlisted companies compared to that of listed companies.



(Note 1) "Others" in investment objective includes exercise of stock acquisition rights and acquisition of own shares etc.
(Note 2) "Others" in method of acquisition includes establishment of affiliated companies, funding support or establishment of a joint venture with a domestic company etc.

Number of Prior Notifications for Stock Purchases (PN-SP) by country and region (FY2025)

- Excluding Japanese investors, the largest number of PN-SP is submitted by US investors, followed by those in the Cayman Islands and Singapore.
- The large number of PN-SP from Japanese investors is due to the provision of the Foreign Exchange and Foreign Trade Act that treats Japanese companies as foreign investors where 50% or more of their voting rights are directly or indirectly held by non-resident individuals or foreign entities.

PN-SP by the investor's home country and region

	Listed company	Non-listed company	total
Japan	116	499	615
US	29	274	303
Cayman Islands	13	260	273
Singapore	38	106	144
Hong Kong	7	52	59
UK	2	42	44
Taiwan	0	109	109
Canada	10	9	19
South Korea	1	68	69
Netherlands	2	21	23
Germany	1	22	23
British Virgin Islands	2	19	21
China	0	12	12
Saudi Arabia	13	0	13
Luxembourg	0	6	6
France	2	11	13
Switzerland	3	19	22
India	1	17	18
Thailand	0	2	2
Australia	0	8	8
Vietnam	0	10	10
British Bermuda Islands	0	4	4
Ireland	0	5	5
Sweden	0	2	2
Israel	0	1	1
Others	9	45	54
total	249	1,623	1,872

PN-SP by the ultimate parent company of the investor whose home country and region is Japan

	Listed company	Non-listed company	total
Japan	77	55	132
US	12	215	227
Singapore	0	32	32
Cayman Islands	2	22	24
Spain	0	1	1
Hong Kong	0	0	0
South Korea	1	8	9
Denmark	0	1	1
Germany	0	6	6
France	0	1	1
Netherlands	1	8	9
Australia	0	2	2
Switzerland	0	1	1
Luxembourg	0	11	11
Ireland	1	5	6
China	0	5	5
Others	6	63	69
Not applicable	16	63	79
total	116	499	615

PN-SP by the ultimate parent company of the investor whose home country and region is the Cayman Islands

	Listed company	Non-listed company	total
Japan	4	50	54
Cayman Islands	3	117	120
US	1	46	47
Hong Kong	0	2	2
Singapore	4	22	26
China	0	2	2
British Virgin Islands	0	0	0
Taiwan	0	5	5
Others	0	12	12
Not applicable	1	4	5
total	13	260	273

(Note 1) The case where the home country and region of the investor is "Japan" and the ultimate parent company is also "Japan" is when a subsidiary is a filer and has a parent company in Japan, and multiple foreign corporations hold more than 50% of the voting rights of the parent company in total, but no single foreign corporation holds more than 50%.
(Note 2) The case where the home country and region of the investor is "Japan" and the ultimate parent company is "N/A", is when multiple foreign corporations hold more than 50% of voting rights of the investor in total, but no single foreign corporation holds more than 50% of the voting rights.
(Note 3) If the investor is a non-resident individual, classification is based on the nationality of the individual.
(Note 4)"by country and region" means classification by the investors' nationality or home country (including home region)

(2) Screening Period

Under the FEFTA foreign investment screening system, foreign investors who have submitted the notification are prohibited from implementing the notified investment transactions within 30 calendar days from the notification receipt in order for the Minister of Finance and the competent minister for the business to screen whether investment transactions subject to prior notification impair national security, etc. (the investment prohibition period can be extended up to four months). However, the investment prohibition period may be shortened if an investment transaction does not fall under the category of those that may cause any situation that impairs national security, etc. The authorities screen prior notification on a risk basis and complete screening promptly and flexibly if the investment transactions in question do not fall under the category of those that may cause any situation that impairs national security, etc. In FY2025, of the 3,401 prior notifications, approximately 25% were screened within five business days (business days refer to government working days excluding national holidays and holidays of administrative organs), and approximately 67% were screened within two weeks (14 calendar days). The average screening period was 9.2 business days. The average screening period is defined as the average number of days between the acceptance of a notification and the public announcement of clearance. It does not include cases where a prior notification has been withdrawn (see (3) below).

(3) Withdrawals of Prior Notifications

In cases where prior notification is required, foreign investors may submit prior notification up to six months before planned investment transaction dates. In practice, however, they may communicate with the authorities (the Ministry of Finance and the competent ministry for the business) before or after official prior notification for individual inquiries regarding the system, including how to fill the notification form and whether prior notification is required. Regarding investment transactions that have a risk of impairing national security, etc., the authorities may check facts about the details of their transactions in order to ascertain the actual situation for appropriate screening.
During such communications with the authorities, foreign investors may withdraw their prior notification and cancel their planned investment transactions or revise their notification for resubmission.

The numbers of withdrawals in recent years are as follows. The numbers of withdrawals are not included in the numbers of prior notifications:

FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
242	239	274	399	363	484

(4) Requiring Reports

Foreign investors are required to submit post-investment reports on their inward direct investment transactions under FEFTA Article 55-5. In addition, the Minister of Finance and the competent minister for the business may order foreign investors to report on matters related to their inward direct investment transactions “to the extent necessary for achieving the purpose of this Act” (requiring report) (FEFTA Article 55-8).

In the operation of the foreign investment screening system, the Ministry of Finance and the competent ministry for the business endeavour to obtain the necessary facts through communications with foreign investors and their target companies from the perspective of proper FEFTA enforcement, including the screening of prior notifications. If it is necessary to accurately confirm important facts that will lead to a judgment on the necessity of further legal actions under FEFTA or if it is difficult to promptly confirm the facts only through voluntary communications, for example, a statutory requirement of reporting may be issued from the perspective of ensuring the effective enforcement of the system. Failure to comply with statutory requirement of reporting or false reporting to statutory requirement of reporting may be subject to penalty.

The numbers of report requests in recent years are as follows:

FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
2	1	2	1	3	2

(5) Recommendations and Orders for Modification / Discontinuance; Orders for Measures

As shown in Section 2.(1) above, when screening finds that an investment or other activity is considered to pose risks to national security or other protected interests, the Minister of Finance and the competent minister responsible for the business sector concerned may recommend or order the modification or discontinuance of the investment or other activity in question after completion of the prescribed procedures, including the hearing of opinions from the Council on Foreign Transactions (FEFTA Articles 27 and 28). No recommendations or orders were issued in FY2025. For reference, a recommendation and an order for discontinuance were issued in 2008 with respect to the acquisition of shares in an electric power-related company. In addition, in April 2026, a recommendation for discontinuance was issued with respect to the acquisition of shares in a company engaged in the manufacture of machine tools.

To enhance transparency in the operation of the foreign investment screening system, the Government has established the approach to information disclosure in cases where recommendations or orders are issued (based on materials distributed at the Foreign Exchange and Other Transactions Subcommittee of the Council on Foreign Transactions on 10 June 2026).

Information Disclosure by the Government in Relation to Foreign Investment Screening

1. Background

- As a general policy, **the Government does not comment on individual cases under the foreign investment screening system**, so as to avoid causing unintended effects on transactions involving the shares of the companies concerned and other related matters.
- In addition, recommendations and orders issued under the foreign investment screening system are not premised on any unlawful conduct by the foreign investor. Accordingly, the system does not require the Government to disclose publicly the fact that a recommendation or order has been issued.
- On the other hand, **from the perspective of ensuring transparency in the operation of the system and enhancing predictability for foreign investors, the Government has established the following approach to information disclosure in cases where recommendations or orders are issued**.

2. Principles on Information Disclosure

(1) Recommendations

- A recommendation provides a foreign investor with an opportunity to consider whether to accept the proposed measures. As a general rule, **the Government will not publicly disclose that a recommendation has been issued before the foreign investor does so, nor will it do so against the wishes of the foreign investor**.
- However, **where a foreign investor publicly discloses that it has received a recommendation** as part of its disclosure relating to the terms of a tender offer or otherwise, **the Government will also explain publicly that a recommendation has been issued**.

(2) Orders

- An order effectively determines that the relevant investment must be modified or discontinued. Compared with recommendations, there is therefore a greater need for public disclosure, taking into account the need to ensure compliance with the order, the fact that penalties may be imposed for non-compliance, and the importance of transparency in the operation of the system. In addition, the accumulation of publicly disclosed cases is important for enhancing predictability for foreign investors more generally.
- In light of these considerations, **the Government will disclose the fact that an order has been issued, while paying due regard to the protection of sensitive information relating to national security and other protected interests, as well as confidential business information of foreign investors and investee companies.**

(3) Annual Reports and Other Means of Disclosure

- The Government will continue its efforts to enhance information disclosure through annual reports and other communication channels.

Also, the Minister of Finance and the competent minister for the business may order foreign investors in cases (1) to (3) and (6) below, if having taken prescribed procedures, such as hearing opinions from the Council on Foreign Transactions after recognising that such investors' inward direct investment and equivalent actions or their Specified Acquisitions impair national security, etc., or if in case (4) or (5) below, to take necessary measures, such as the disposal of all or part of shares or equity acquired through their inward direct investment transactions (FEFTA Article 29).

(1) If the transactions are implemented without prior notification
(2) If the transactions are implemented before the end of the investment prohibition period before the clearance of screening
(3) If false prior notification is submitted
(4) If the foreign investors fail to comply with the recommendations they accepted for changes in the inward direct investment transactions in question, or violate orders for such changes
(5) If the foreign investors fail to comply with the recommendations they accepted for the cancellation of the inward direct investment transactions in question, or violate orders for the cancellation
(6) If foreign investors who use the prior notification exemption system for inward direct investment transactions violate orders for recommended measures to comply with the exemption conditions

Since the 2017 FEFTA revision when provisions for Specified Acquisition and Orders for Measures were introduced, there have been no orders for measures based on FEFTA Article 29.

The authorities have various methods for dealing with national security and other risks, including not only Orders for Measures such as divestiture orders, but also statutory requirement of reporting (see (4) above), and responses through administrative guidance regarding prior notification screening and ex post facto monitoring. These methods are used appropriately in accordance with a specific situation.

(6) Penalties

From the viewpoint of ensuring the enforcement of the foreign investment screening system, FEFTA has various penalty provisions. Specifically, FEFTA Article 70 stipulates that violations, such as those of the prior notification obligation and orders for transaction changes by the Minister of Finance and the competent minister for the business, shall be subject to detention for not more than three years, a fine of not more than 1 million yen, or both. If three times the value of the subject matter of a violation exceeds 1 million yen, the fine is not more than three times that value. In addition, FEFTA Article 71 imposes a penalty of detention for up to six months or a fine of up to 500,000 yen for violations regarding reporting obligations and on-site inspections.

No penalty has been imposed since the 2019 FEFTA revision that established the present basic framework for the inward direct investment screening system.

(7) Non-notified Cases

Under the FEFTA foreign investment screening system, if a foreign investor who is required to submit prior notification regarding inward direct investment and equivalent actions fails to do so, the investor may become subject to criminal penalties as stipulated in FEFTA Article 70 and such inward direct investment and equivalent actions impair national security, an order for measures as stipulated in FEFTA Article 29, being ordered by the authorities (the Ministry of Finance and the competent ministry for the business) to take necessary measures, such as divestiture orders. In addition, failure to submit the necessary post-investment reports (reports in cases where the prior notification exemption system is used, reports on the execution of stock acquisitions and disposals, etc.) will result in criminal penalties as stipulated in FEFTA Article 71, as described in (6) above.

In deciding on the necessary measures, the authorities may consider the circumstances of the failure, such as whether the violation was intentional, the circumstances under which the violation was found (whether it was voluntarily reported by the investor in question or found by the authorities), whether the investor reported the violation to the authorities immediately after becoming aware of the violation, whether the investor took measures to conceal the violation, and whether the investor repeated or continued the violation. If the violation is recognised as highly malicious, tough measures may be taken. In the event that a non-notified case is found, the authorities first request the foreign investor in question to prepare and submit a case investigation form regarding the outline of the violation, the circumstances under which the violation was found, the management system and the reason for the violation, and measures to prevent the recurrence of the violation, and then take specific measures including statutory requirement of reporting (FEFTA Article 55-8) based on the responses .

The detection of non-notified cases is extremely important from the viewpoint of accurately preventing the leakage of technological information related to national security, etc., and from the perspective of ensuring the appropriate enforcement of the inward direct investment screening system. It is an area that the authorities have been focusing on in recent years. As a result, the authorities detect a certain number of non-notified cases every year. In reality, there is a considerable number of minor notification failure cases that arise from a lack of awareness of the system and are less malicious. Thus, the authorities are making efforts to inform related industry groups about the system, including professionals who often act as agents in FEFTA procedures. It is our policy to make further efforts to detect non-notified cases through measures such as cooperation with relevant ministries and agencies and conducting analysis using public announcements and information regarding companies in designated business sectors and foreign investors.

The numbers of non-notified cases (based on the number of prior notifications and reports that should have been submitted, but were not, and were discovered during that financial year) in recent years are as follows:

FY2022	FY2023	FY2024	FY2025
534	1,184	356	580

As mentioned above, we are taking the necessary measures for non-notified cases that are considered particularly serious, including requesting reports. However, most non-notified cases other than these are not considered serious; rather, they are due to a lack of knowledge of the system or inadequate internal management systems. Additionally, many non-notified cases regarding prior notifications tend to be related to prior notifications for Certain Actions, such as the appointment of directors. The number of cases has increased in 2023 due to various investors' non-notified cases being identified over several years in relation to prior notifications for director appointment approvals.

(8) Prior Notification Exemption System

Foreign investors who meet certain requirements can use the prior notification exemption system only if they comply with certain conditions, such as pledging to refrain from being appointed as director and from accessing secret non-public technological information at target companies (see 2. (2)).

Under these circumstances, it is important for the authorities to enforce the exemption system effectively, including taking strict measures in accordance with laws and regulations as necessary, so that the use of the exemption system by foreign investors who are not qualified to use the exemption system and violations of the exemption conditions after the use of the exemption system do not risk harming national security, etc. Accordingly, the authorities continuously monitor foreign investors who use the exemption system, including checking the status of their compliance with the exemption conditions, based on their attributes and the details of their transactions.

The numbers of post-investment reports under the exemption system are as follows:

FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
960 (337)	842 (604)	756 (546)	640 (426)	702 (323)	801 (348)

* The above are the numbers of post-investment reports submitted by foreign investors after an investment has been made using the exemption system.
In brackets are the numbers of blanket exemptions for foreign financial institutions.
The number of change reports (form 19-2), replacements, or withdrawals is not included.

(9) Post-investment Reports on Investments in Companies Engaging in Non-designated Business Sectors

For investments in companies engaging in non-designated business sectors, post-investment reports are required within 45 days of the date of investment execution when their shareholding or voting rights ratio reaches 10% or more. The numbers of post-investment reports are as follows:

FY2021	FY2022	FY2023	FY2024	FY2025
3,886	4,113	4,152	4,552	4,913