## Foreign Exchange and Foreign Trade Act

## Foreign Investment Screening System

Annual Report (FY**2024**)

Ministry of Finance, Japan

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## 1. Foreword

As five years have passed since the implementation of the foreign investment screening system under the 2019 revised Foreign Exchange and Foreign Trade Act (hereinafter referred to as "FEFTA"). Under the investment screening system under FEFTA, given recent changes in the economic security environment, while it is necessary to further promote investment in Japan that contributes to sound economic development under the principle of free trade, at the same time, it is also necessary to ensure that economic security requirements are met, and it is important to strike a balance between the two.

To overcome the recent population decline caused by an ageing society and a low birth rate, and to achieve stable economic growth, it is important to promote sound inward direct investment which will realise investment expansion and job creation in local communities, as well as innovation through the integration of domestic and foreign resources. In this regard, I believe that effectively and efficiently designing the investment screening system will also promote healthy economic activity and market development.

Furthermore, recent changes in the socio-economic structure have also increased the need for economic security. In May 2025, the investment screening system was revised to prioritise high-risk investments and make it mandatory for investors obliged to cooperate with foreign governments in collecting information to file a prior notification. This was done in light of concerns that they might leak sensitive information about Japanese companies to foreign governments.

It will be necessary to continue responding to changes in the socio-economic environment. However, when designing policies related to the investment screening system, it is important to take a careful and focused approach with an eye on both regulations and the market.

This annual report also publishes various statistical data related to the foreign investment screening system along with comprehensively explaining the system and its history, the authorities' views on screening and monitoring, and system management practices. In particular, the report summarizes recent policy trends, such as the enhancement of the screening and monitoring regime and the authorities' efforts to detect non-notified cases. The annual report also illustrates in detail the various stages and decision points in the foreign investment screening system, in addition to outlining the Government's policy on promoting investment in Japan and policy trends related to economic security.

We hope that this annual report will help to improve the transparency of the FEFTA foreign investment screening system for all investors and to promote dissemination of this vital policy for Japan's economy.

Akihiro TSUCHIYA 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 the Act 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 measures such as asset freezing for economic sanctions and 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							
<ul> <li>FEFTA provides for fundamental matters on foreign transactions (cross-border payments and various transactions)</li> <li>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.</li> <li>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.</li> <li>It also serves as a tool for controlling foreign transactions for security purposes and in dealing with economic contingencies.</li> </ul>							
> 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, <u>based on freedom of foreign transactions</u> , 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 <u>minimum necessary control or coordination</u> 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.							
<ul> <li><u>Principle:</u> freedom of foreign transactions</li> </ul>							
$\bigcirc$ <b>Exceptions:</b> minimum necessary control or coordination $\rightarrow$ Restrictions may apply to foreign transactions							
<u>①economic sanctions</u> : 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							
<u>③economic emergency</u> : 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

FEFTA requires prior notification 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 operation of the Japanese economy, while maintaining the principle of freedom of foreign transactions. The Minister of Finance and the ministers in charge of relevant business sectors are prescribed to screen the notification (FEFTA Article 27: Screening of prior notification 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 notifications).

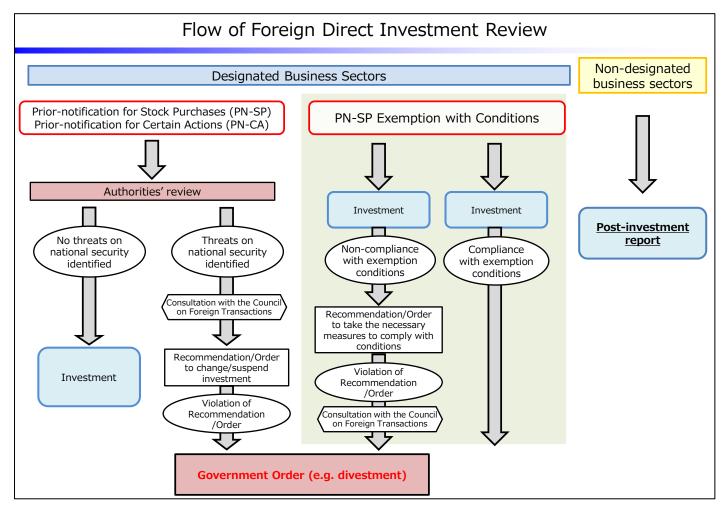
As shown in the figure below, the investment screening system under FEFTA can be roughly classified into three types.

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 other ministries responsible for relevant business sectors 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 Customs, Tariff, Foreign Exchange and Other Transactions (hereinafter referred to as the "Council on Foreign Transactions") (FEFTA Article 27). 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). With regard to FEFTA Article 27, the authorities have recommended and ordered a foreign investor to cancel the acquisition of shares in a Japanese electric power-related company in the past, taking into account the impact of the acquisition on the management of the company (the impact was judged comprehensively based on circumstances such as the foreign investor's investment policy and activities) and the risk of hindering the maintenance of public order (the risk of affecting Japan's policy of a stable electricity supply was identified).

Second, the middle of the figure covers investment for which the prior notification exemption system can be used. Only if a foreign investor complies with the exemption conditions, such as refraining from being involved in the management of the target company and from accessing secret non-public technology information, and can demonstrate that the investment is considered to be purely for the purpose of asset management, the investor may be exempted from the prior notification obligation but are required to submit the post investment report after its implementation. 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 Article 27-2). 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.



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

Japan's inward direct investment system started 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 for the purpose of selectively introducing high-quality foreign capital to protect the balance of payments, reflecting the state of the Japanese economy undergoing reconstruction.

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 expost 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 expost 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 screening of foreign investment under the current FEFTA. Most recently, the Cabinet Order on Inward Direct Investment and Ministerial Order on Inward Direct Investment and Public Notices were revised in 2025 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. Additionally, the revisions of designated business sectors have been taken in line with economic security requirements.

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## (3) Types of Foreign Investors Subject to the 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 a majority of 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 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 designates business sectors (Core designated business sectors and Non-core designated business sectors) for inward direct investment by foreign investors subject to prior notification in certain cases from the perspective of national security and other aforementioned objectives under FEFTA.

Designated business sectors are stipulated in Public Notices by the Ministry of Finance and other ministries responsible for relevant business sectors 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 Augst 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 core and other designated business sectors are as follows:

De	esignated Bu	siness Sectors	From the amendment of the Public Notices in August 2024
[Designated Business S	Sectors]	(" <u>Core Designated</u>	<u>d Business Sectors</u> "]
<ul> <li>Weapons</li> <li>Aircrafts (incl. drones)</li> <li>Nuclear facilities</li> <li>Space</li> <li>Dual-use technologies</li> <li>Pharmaceutical manufacturing sector diseases</li> <li>Specially-controlled medical devices n</li> <li>Metal mining, smelting, refining etc. of Metal maintains port facilities on Designated</li> <li>Fertilizers (potassium chloride, etc.) in</li> <li>Permanent magnets mfg., its materia</li> <li>Machine tools, industrial robots manufacturing etc. of semiconductor</li> <li>Manufacturing etc. of semiconductor</li> <li>Manufacture of advanced electronic construction service fibre optic cables</li> <li>Cybersecurity-related (Software, Semi Electricity</li> <li>Gas</li> <li>Telecommunications</li> <li>Water supply</li> <li>Railway</li> <li>Petroleum</li> <li>Heat supply</li> <li>Broadcasting</li> <li>Public transport bus</li> </ul>	of communicable nanufacturing of critical minerals ich improves or d Remote Islands mporting I mfg. facturing mfg. equipment omponents fg. ifacturing mfg. mfg. nes	<ul> <li>All of the following sectors</li> <li>Weapons; Aircrafts (incl. drouse technologies</li> <li>Pharmaceutical manufacturing Specially-controlled medical</li> <li>Metal mining, smelting, refinition</li> <li>Construction service business port facilities on Designated</li> <li>Fertilizers (potassium chlorid)</li> <li>Permanent magnets mfg., its</li> <li>Machine tools, industrial robotic</li> <li>Manufacturing etc. of semicotic</li> <li>Manufacture of advanced ele</li> <li>Storage batteries manufacturi</li> <li>Marine equipment (engine et Manufacture of fibre optic ca</li> <li>Part of the following sectors</li> <li>Cybersecurity-related; Electric Water supply; Railway; Petroc</li> <li>Carlot the following sectors</li> <li>Part of the following sectors</li> </ul>	nes); Nuclear facilities; Space; Dual- ng sector of communicable diseases; devices manufacturing ing etc. of critical minerals s etc. which improves or maintains Remote Islands e, etc.) importing s material mfg. ots manufacturing onductor mfg. equipment ctronic components ring, its material manufacturing ic.) manufacturing al powder mfg. al machines bles <b>s</b> icity; Gas; Telecommunications; pleum (incl. wholesale of natural gas) <b>ted Business Sectors</b> "] <b>s</b> icity; Gas; Telecommunications;
<ul> <li>Biological chemicals</li> <li>Security services</li> <li>Agriculture, Forestry and Fisheries</li> <li>Leather manufacture</li> <li>Aviation transportation</li> <li>Maritime transportation</li> </ul>		<ul> <li>Biological chemicals</li> <li>Security services</li> <li>Agriculture, Forestry and Fisl</li> <li>Leather manufacture</li> <li>Aviation transportation</li> <li>Maritime transportation</li> </ul>	heries

## <Column 2> Recent change of designated business sectors

Under the inward direct investment screening system, designated business sectors are specified in a 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 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 over the past five years 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 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 Organization (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 designated 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 designated 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 designated 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 specific important products under the Economic Security Promotion Act to strengthen the supply chains of such products. This was done 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 has added 11 specified critical products\* and the manufacturing of metal 3D printers and drones to the designated sectors, 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 important 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 designated business sectors.

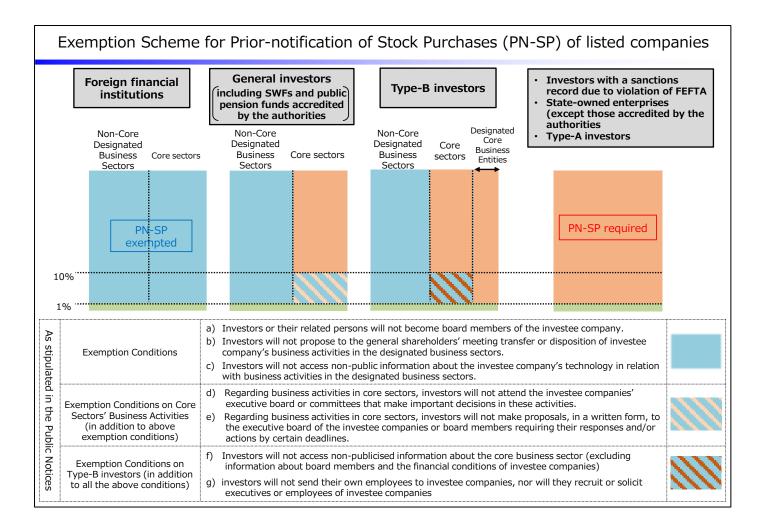
At the same time, from the perspective of ensuring national security, the manufacture of optical fibre cables (silicon-based optical fibres and optical fibre strands) and the manufacture of multifunction devices have been added to designated business sectors for products that are not designated as "specified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

## (6) Prior Notification Exemption System

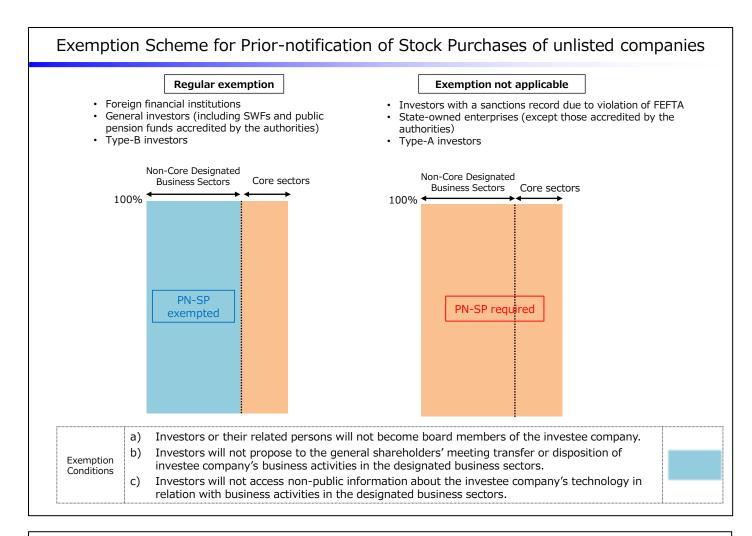
Prior notification may not be required for the acquisition of shares and voting rights in listed companies, etc., and the acquisition of shares and equity in unlisted companies, etc. among inward direct investment transactions made by foreign investors, only if they comply with certain conditions (exemption 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 or state-owned enterprises or those controlled by state-owned enterprises or Type-A investor 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.

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



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



## Exemption Scheme for Prior-notification of Stock Purchases of unlisted companies

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

## (7) Amendments to Cabinet Order and Ministerial Order Concerning "Type-A Investors"

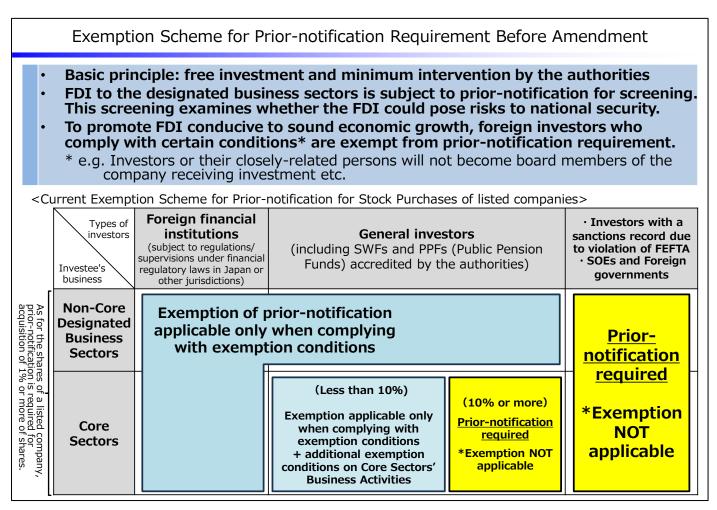
## (promulgated on 4 April 2025, effective on 19 May 2025)

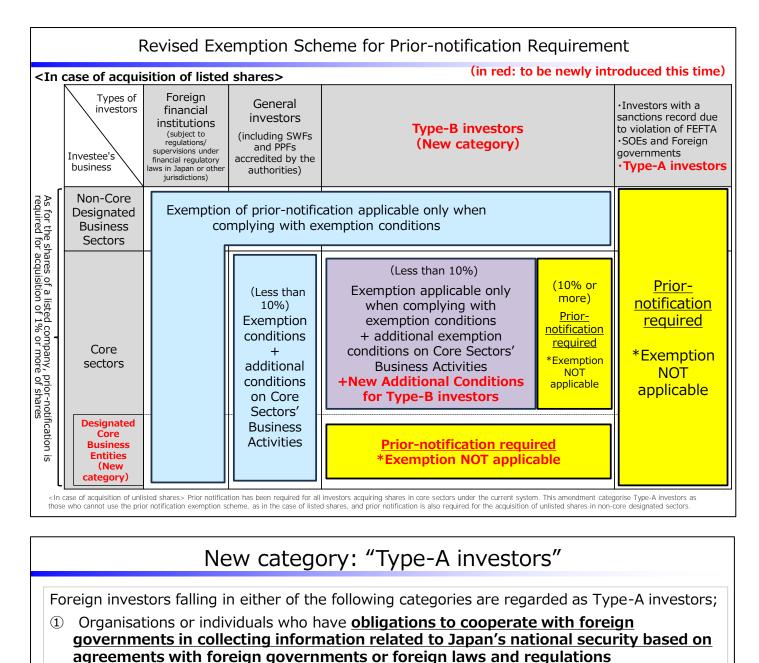
Under the previous prior notification exemption system, in addition to those who had been punished for violating FEFTA in the past, foreign governments and state-owned enterprises controlled by them were not allowed to use the prior notification exemption system for inward direct investment in all designated business sectors, as they posed a higher security risk than normal investors.

Conversely, there are growing 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. In this context, it was pointed out that some investors eligible for the exemption scheme for prior notification could invest without pre-screening by the authorities, despite posing similar risks to foreign governments or SOEs and potentially leaking information. To address this, amendments were made in April 2025 to the relevant Cabinet Order and Ministerial Order to revise the application of the exemption system, which came into effect in May 2025.

Specifically, Type-A Investors, who are obliged to cooperate with foreign governments in collecting information related to Japan's national security based on agreements with foreign governments or laws and regulations, are now required to file a prior notification when investing in all designated business sectors.

Furthermore, even if an investment does not fall under the above mentioned categories, Investments made by Type-B Investors in companies subject to the Economic Security Promotion Act that particularly need measures under FEFTA (i.e. "Specified Essential Infrastructure Service Providers" under the 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 exemption as they are recognised as posing a high risk to national security.

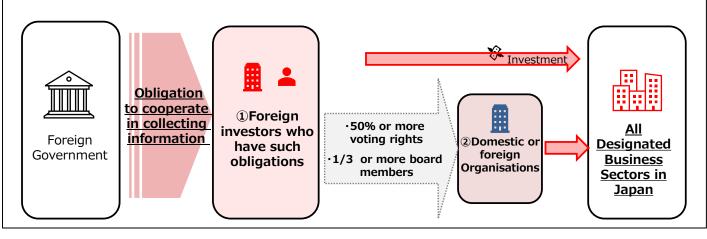




② Organisations controlled by foreign investors mentioned in ① above or by foreign governments which impose the obligations on these investors. This control may be established through 50% or greater ownership of voting shares, or by the appointment of **1/3 or more** of

(this is in accordance with the current rule with respect to the foreign investors owned or controlled by foreign governments or SOEs)

the organisation's board members.



## New category: "Type-B investors"

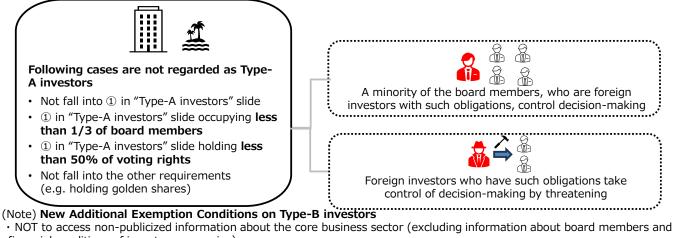
# To prevent circumvention of the rules, foreign investors in the following cases are regarded as "Type-B investors";

(i) Their substantive decision-making is controlled by organisation or individual who have obligations to cooperate with foreign governments in collecting information related to Japan's national security (① in "Type-A investors" slide)

(ii) 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 security where their substantive headquarters are located.

(iii) 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 in "Type-A investors" slide

## (Example of "substantive decision-making is controlled" mentioned in (i) above)



financial conditions of investee companies)NOT to send employees to investee companies and NOT to recruit or solicit executives or employees of investee companies

## <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", Type-B Investors are defined in Ministerial Order on Inward Direct Investment delegated from Article 3-2, Paragraph 2, Item 3 of the Cabinet Order. Specifically, it stipulates Type-B Investors as foreign investors whose substantive decision-making is controlled by those who have obligations to cooperate with foreign governments in information collection activities, whose substantive headquarters are located in countries or regions other than those of incorporation and whose activities are affected by laws of such countries on information collection activities, or who have obligations to disclose information to cooperate with foreign governments' information collection activities in accordance with agreements (including each agreement when having chain of similar agreements) with Type-A Investors.

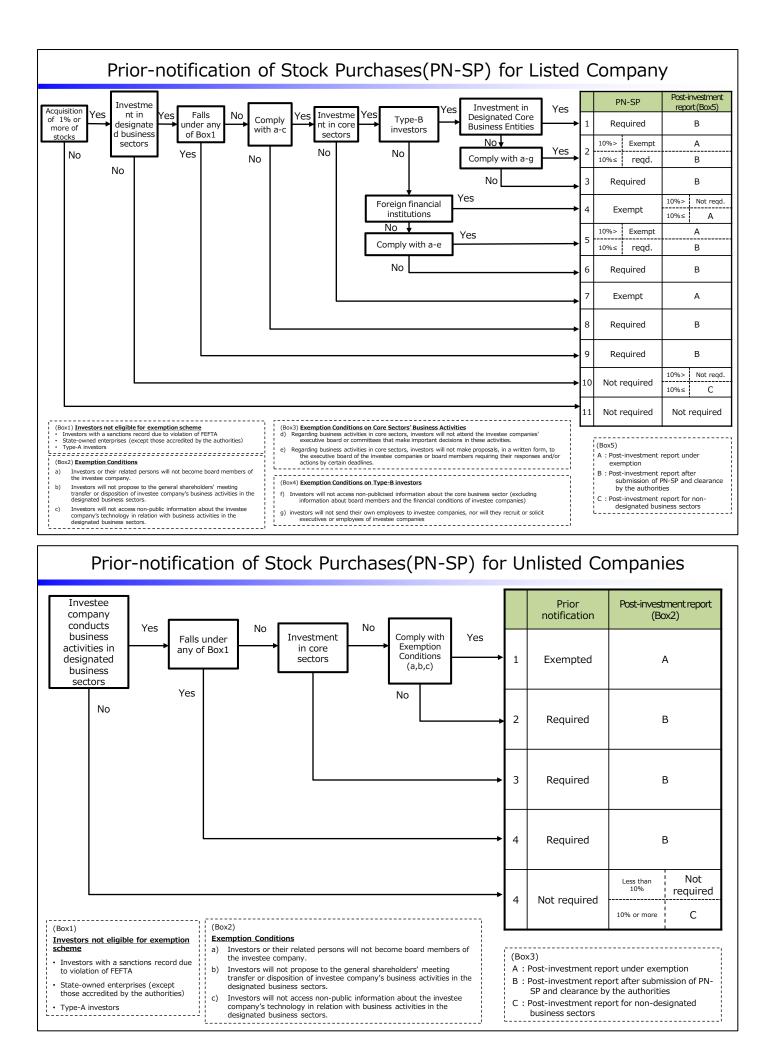
"Investment transactions that aim to make it difficult for business operations in designated business sectors to be conducted continuously and stably" are defined in Article 3-2, Paragraph 2, Item 4 of the Cabinet Order. If an inward direct investment transaction that can use the prior notification exemption 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. In a case in which an investment transaction is subject to this item, a prior notification may allow the authorities to recommend the relevant investor to revise or cancel the transaction. 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.

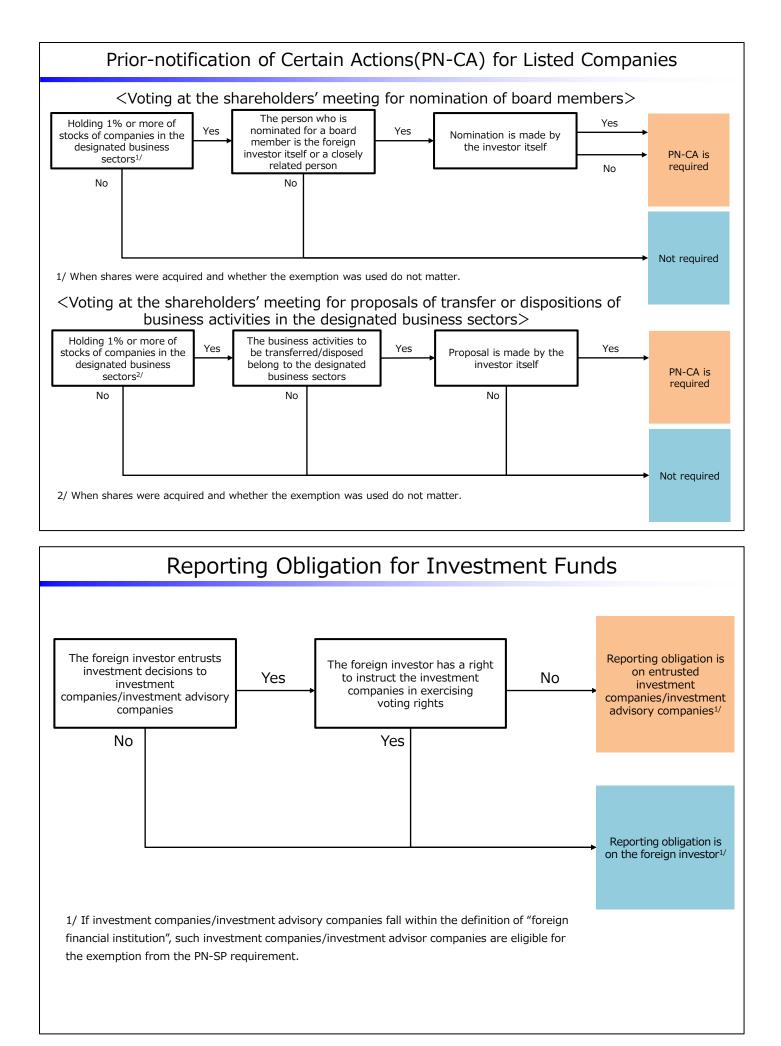
As for "investment transactions that have the purpose of committing actions that are contrary to complying with the exemption conditions," Ministerial Order on Inward Direct Investment delegated from Article 3-2, Paragraph 2, Item 5 of the Cabinet Order stipulates the following investment transactions 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 core sectors' business 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.

# (8) 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:





## <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 amid the intensification of cross-border economic activity and deepening international interdependence. 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. Strengthening economic security policies has therefore become imperative in order to address these issues.

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 designates important materials that are essential for the survival of the people or on which their lives and economic activities widely depend as "specified critical products", and aims to ensure a stable supply of "specified critical products" through supporting private businesses and other entities to ensure a stable supply. In December of the same year, the Cabinet Order designated 11 materials, including semiconductors, machine tools, critical minerals, and antibacterial substances, as "specified critical products", and reviews have been conducted as needed since then. In 2024, advanced electronic components were added to the list.

In addition to preventing the leakage of technology that could endanger national security, the investment screening system under FEFTA also aims to ensure the stable supply of goods and services necessary for maintaining national security, public order and public safety in both normal and emergency situations. In this respect, the 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, 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.

In this way, as the government as a whole promotes economic security policies, the investment screening system under FEFTA is an important tool for ensuring "strategic autonomy" and "strategic indispensability". Against the backdrop of these economic security requirements, in April 2025, amendments were made to the Cabinet Order and Ministerial Order to make it impossible to use the prior notification exemption system for investments by investors who are obliged to cooperate with foreign governments in collecting information based on agreements with foreign governments or laws and regulations. It is important to review and, where necessary, revise the investment review system in a timely and appropriate manner, under ongoing verification and consideration.

## 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 overcome the declining population caused by an ageing society with a low birthrate and achieve stable economic growth, it is important to attract highly skilled human resources, advanced technology, and abundant capital from overseas.

For this reason, at the Japan Investment Promotion Conference held in May 2024, the Japanese government presented four pillars and ten measures as a "priority programme for accelerating direct investment in Japan": (1) expanding investment opportunities in Japan, (2) securing highly skilled human resources from Asia and other regions, (3) promoting collaboration between domestic and overseas companies, and (4) improving the business and living environment. Through these and other measures, the Japanese government aims to achieve a total of 100 trillion yen in inward direct investment by 2030.

Furthermore, in the "Basic Policy on Economic and Fiscal Management and Reform 2024" approved by the Cabinet in June 2024, the government aims to achieve the goal of 100 trillion yen in foreign direct investment in Japan by 2030 as soon as possible. Based on the "Action Plan to Attract Human Resources and Capital from Overseas" and the "Priority Programme to Accelerate Foreign Direct Investment in Japan", the government will promote collaboration between overseas and domestic companies, including investment, in addition to securing highly skilled young talent. and to undertake efforts to publicise and promote these initiatives overseas. Subsequently, in the "Basic Policy on Economic and Fiscal Management and Reform 2025" adopted in June 2025 following the decision of the Foreign Direct Investment Promotion Conference, the target balance of 100 trillion yen was raised to 120 trillion yen, and a new target of 150 trillion yen was set for the early 2030s.

As stipulated in Article 1, FEFTA aims to ensure the normal development of foreign transactions, maintain peace and security in Japan and international society, and promote the sound development of the Japanese economy by conducting the minimum necessary control or coordination based on the freedom of foreign transactions. National security and economic growth are two sides of the same coin that must be pursued simultaneously. It is necessary to implement policy measures that ensure economic security while actively encouraging sound inward direct investment.

# **3. Recent Developments in the Inward Direct Investment Screening System**

## (1) Enhancement of the Screening and Monitoring Regime

Since the FEFTA revision in 2019, the authorities have been trying to enhance the screening and monitoring regime for the foreign investment screening system. Specifically, the Ministry of Finance established the Foreign Investment Policy and Review Office in 2020. Regarding economic security and the FEFTA foreign investment screening system, the "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 finance bureaus," "seek to strengthen its organisational structure for promoting economic security together with relevant ministries and agencies," and "enhance the necessary capacity for collecting and analysing intelligence to buttress our intelligence capabilities." This policy was maintained in the "Basic Policy on Economic and Fiscal Management and Reform 2023: Accelerating New Form of Capitalism -- Expanding Investment for the Future and Realizing Structural Wage Increases (Basic Policy 2023)." Based on this policy, the Local Finance Bureaus, which are regional branches of the Ministry of Finance, have appointed officials in charge of the foreign investment screening system since 2022 to disseminate information about the system by holding briefings on the system and to provide consultation and collect information by setting up contact points for tips and referrals. Given the environment surrounding economic security has become increasingly severe, it is important to collect and analyse information on movements of and investment in local companies with sensitive and important technologies. To this end, the Ministry of Finance has been utilising the Local Finance Bureaus to collect and analyse such information in order to further strengthen the screening and monitoring regime.

The foreign investment screening system in Japan features a far lower threshold than its foreign counterpart systems for mandatory prior notification of foreign investment transactions to acquire voting shares in listed companies. All other G7 countries, excluding the United States, which has no such threshold and reviews foreign investment based on details of transactions, have set the threshold at 10% or more, against 1% in Japan. This is because Japan's Companies Act authorizes a person who holds 1% or more of voting shares in a company have the right to make proposals at the company's general shareholders meeting. Since Japan has a prior notification exemption system, all foreign direct investment transactions that acquire 1% or more of voting shares in Japanese companies are not necessarily subject to prior notification. However, Japan's foreign investment screening system has a relatively wider scope of investment transactions subject to prior notification not only in the prior screening process, but also in monitoring after the implementation of investment transactions, from the perspective of accurately dealing with national security, etc. Based on the awareness of this issue, the authorities are making further efforts to strengthen monitoring in order to identify cases of non-compliance in a timely and appropriate way and issue necessary orders or corrective measures in a flexible manner.

		US	UK	France	Germany	Italy	Canada	Japan
Mandatory pre-	Thresholds	No numerical thresholds (Limited to transactions involving the acquisition of control or sensitive information)	25%	10%	10% / 20%	3% / 10%	33% (for companies above a certain size)	1%
pre-screening	Sectors subject to review	Designated sectors (Limited to critical technologies subject to export control)	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
m	Number of mandatory pre-screenings 342 (including voluntary filings)		753	135	261	577	6	2,903

(note 2) For Canada, the number of applications subject to net benefit review is six. In addition, there were 1,195 notifications which can be provided up to 30 days after the investment has been made.

(note 3) 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.

## <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 order, 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. National Diet deliberations on the FEFTA revision in 2019 and the supplementary resolution of the revised FEFTA called for the transparent and appropriate operation of the foreign investment screening system.

Given the above, the Ministry of Finance and other ministries responsible for relevant business sectors 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 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 order, in ordinary and emergency situations".
- B) <u>Factors regarding the attributes of a foreign investor:</u> "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 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 <u>https://www.mof.go.jp/english/policy/international\_policy/fdi/gaitamehou\_20200508.htm</u> (in English)

## (2) Cooperation with Relevant Organisations in Japan and Overseas

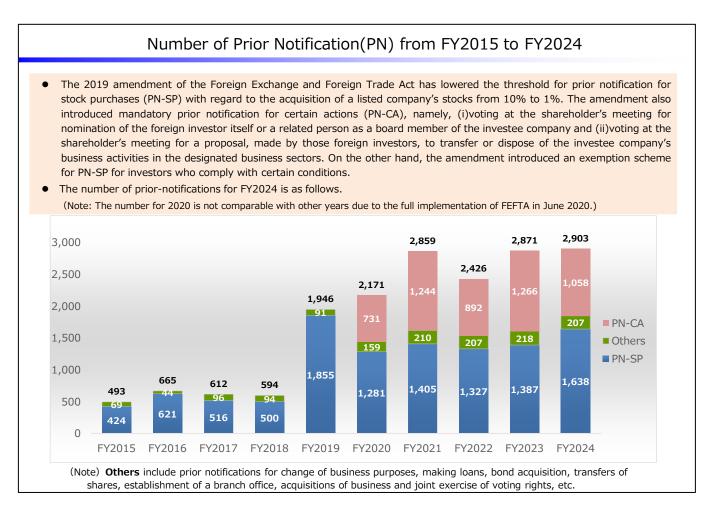
Given the changes in the international economic and financial situation, such as a recent increase in inward direct investment and foreign investors' diversification of methods for exerting influence on Japanese companies, it is important for the Ministry of Finance and other ministries responsible for relevant business sectors to enhance their foreign investment screening capacity. This includes information gathering, in order to distinguish between inward direct investment transactions that are related to national security and sound ones that are not and to realize secure and prompt screening under the foreign investment screening system. For this reason, it is important for reviewing authorities to strengthen cooperation with relevant organisations in Japan and overseas and utilise these organisations' information for screening from the perspective of enforcing the system effectively. Therefore, the 2019 FEFTA revision included necessary measures, such as the establishment of provisions regarding requests for support from domestic relevant organisations (FEFTA Article 69-3) and those regarding information cooperation with foreign authorities (FEFTA Article 69-4). In recent years, the authorities have been making particular efforts to enhance cooperation with relevant organisations in Japan and overseas by holding regular meetings of relevant ministries for the purpose of sharing knowledge on inward direct investment trends and screening methods and by promoting the exchange of information with foreign authorities.

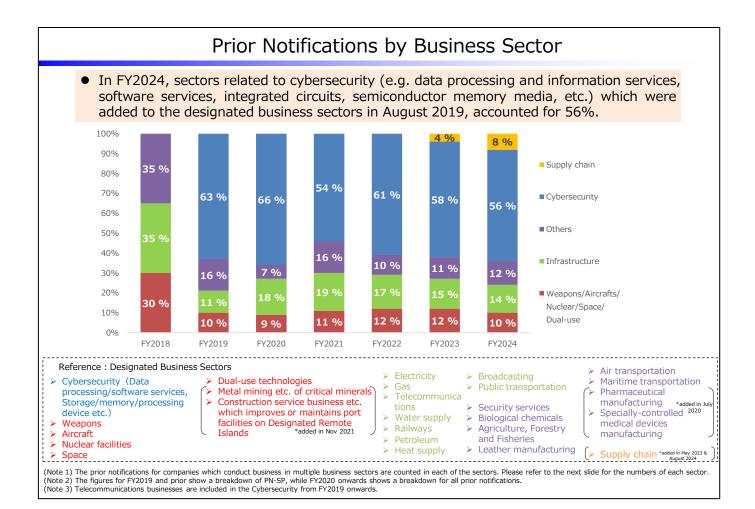
## 4. Status of System Implementation

## (1) Prior notification

Prior notification is the basis for the enforcement of the foreign investment screening system and an important source 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 notification than those in other countries (see 3 (1) above). For this reason, how to deal with foreign investment screening system requires to submit prior notification (a non-notified case) is one of the important policy issues related to the foreign investment screening system (see (7) below).

Recent prior notification statistics are as follows.

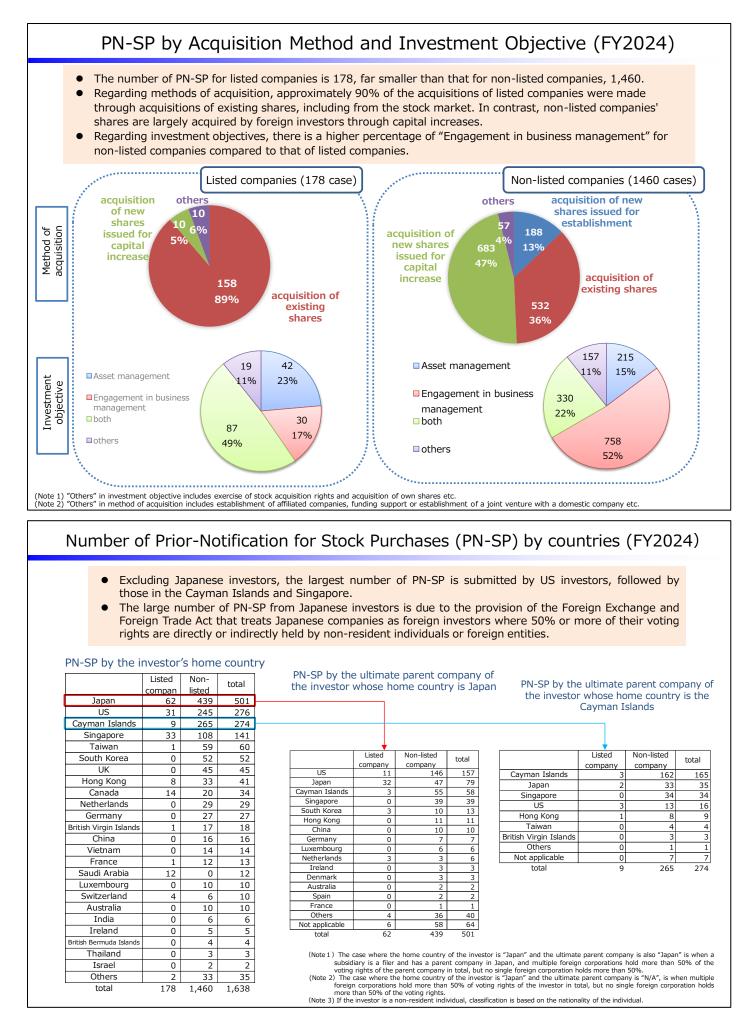




(Referer	(Reference) The number of Business Sectors in Prior Notifications																					
	FY2018	EV2010		FY2	020			FY2	021			FY2	022			FY2	023			FY2	024	
	112010	112019		Others	PN-CA	Total	PN-SP	Others	PN-CA	Total												
Weapons, etc.	233	188	100	6	59	165	196	10	134	340	121	9	103	233	175	14	109	298	148	11	82	24
Aircraft	19	23	18	0	4	22	11	2	10	23	17	2	18	37	19	0	7	26	31	2	14	4
Nuclear facilities	12	10	2	0	2	4	2	1	3	6	10	0	7	17	7	1	8	16	17	0	5	2
Space	15	16	12	0	4	16	25	1	9	35	17	0	10	27	22	3	28	53	30	0	1	3
Cybersecurity	-	1,457	953	56	590	1,599	994	105	863	1,962	984	104	696	1,784	952	103	978	2,033	1,207	111	754	2,07
Metal mining etc. of critical minerals	-	-	-	-	-	-	4	0	0	4	4	0	0	4	7	0	0	7	14	0	0	1
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	
Secure Stable Supply Chains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	82	10	69	161	194	16	93	30
Electricity/Gas, etc.	318	235	255	87	44	386	328	96	83	507	225	72	77	374	254	85	58	397	247	76	44	36
Telecommunications	14	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Broadcasting	7	2	9	0	2	11	14	0	16	30	3	1	0	4	9	0	15	24	6	0	8	1
Water supply	3	6	1	0	2	3	2	0	0	2	3	0	2	5	2	0	0	2	0	0	0	
Railways	3	2	1	0	0	1	3	1	4	8	26	9	1	36	18	3	0	21	26	0	0	2
Public transportation	0	0	0	0	0	0	0	0	0	0	2	0	0	2	5	0	1	6	6	0	0	
Biological chemicals/Pharmaceutical manufacturing, etc.	19	34	27	4	45	76	69	3	72	144	24	5	80	109	39	12	96	147	62	3	80	14
Security services	40	77	12	0	9	21	57	1	27	85	27	1	18	46	35	1	27	63	56	4	38	9
Agriculture, Forestry and Fisheries	94	96	37	5	11	53	69	0	62	131	47	5	44	96	59	2	57	118	81	4	21	10
Petroleum	49	46	15	1	22	38	75	2	54	131	28	3	47	78	46	3	33	82	41	1	67	10
Leather manufacturing	10	29	2	0	0	2	0	0	4	4	5	0	5	10	10	1	0	11	5	0	5	1
Air transportation	31	11	4	1	2	7	2	1	4	7	3	3	0	6	3	0	4	7	1	4	1	
Maritime transportation	36	31	5	0	6	11	49	1	162	212	3	0	23	26	8	0	32	40	9	0	80	8
Total number of PN	594	1,946	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	2,90
Sum of sectors in PN	903	2,263	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	3,70

(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.



## (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 ministers responsible for relevant business sectors 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 thase that may cause any situation that impairs national security, etc. In FY2024, of the 2,903 prior notifications, approximately 30% were screened within five business days (business days refer to government working days excluding national holidays and holidays of administrative organs), and approximately 79% were screened within two weeks (14 calendar days). The average screening period was 8.2 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 cases 3 below).

## (3) Withdrawal of prior notification

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 other ministries responsible for relevant business sectors) 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 number of withdrawals is not included in the number of prior notifications:

FY2020	FY2021	FY2022	FY2023	FY2024
242	239	274	399	363

## (4) Requiring report

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 ministers responsible for relevant business sectors 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 Minister of Finance and ministers responsible for relevant business sectors 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 notification. If it is necessary to accurately confirm important facts that will lead to a judgment on the necessity of further legal action 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
2	1	2	1	3

## (5) Order for modification, discontinuance/ Order for Measures

The Minister of Finance and ministers responsible for relevant business sectors 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 order for measures based on FEFTA Article 29 and there have been no recommendations or orders to modify or discontinue the investment based on Article 27 and Article 28.

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. (4)), 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 ministers responsible for relevant business sectors shall be subject to imprisonment 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 imprisonment 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 inward direct 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 other ministries responsible for relevant business sectors) 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
534	1,184	356

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 system effectively, including taking strict measures in accordance with laws and regulations as necessary, so that the use of the prior notification exemption system by foreign investors who are not qualified to use the system and violations of the exemption conditions after the use of the system do not risk harming national security, etc. Accordingly, the authorities continuously monitor foreign investors who use the prior notification 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 prior notification exemption system are as follows:

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

\* The above are the numbers of post-investment reports submitted by foreign investors after an investment has been made using the prior notifications 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.