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 (January 4, 2027).

Section III entered into force on the date of promulgation (June 5, 2026).

Risk mitigation measures

- ✓ Risk mitigation measures (RMMs) are an important tool for addressing national security risks.
- ✓ The Act **clarifies the use of and procedures for RMMs**, with a view to ensuring their proper implementation while enhancing predictability for foreign investors, including through:
  - explicitly **adding RMMs as an item on prior notification form;**
  - **clarifying the procedures foreign investors need to follow when (i) they modify RMMs in the course of the review process, and (ii) they seek to change the reported RMMs** after the execution of investment; and
  - clarifying that **the authorities' recommendations/orders may include RMMs** (in addition to requiring modification or suspension of investment)

Procedure to change the reported RMMs

Screening review completed

RMMs are included (when necessary) in the prior notification form

Investment

RMMs need to be implemented as reported

Submit a prior notification for changing RMMs

When foreign investors seek to change the reported RMMs

Review of prior notification

The authorities review whether the changes could pose national security risks

No concerns

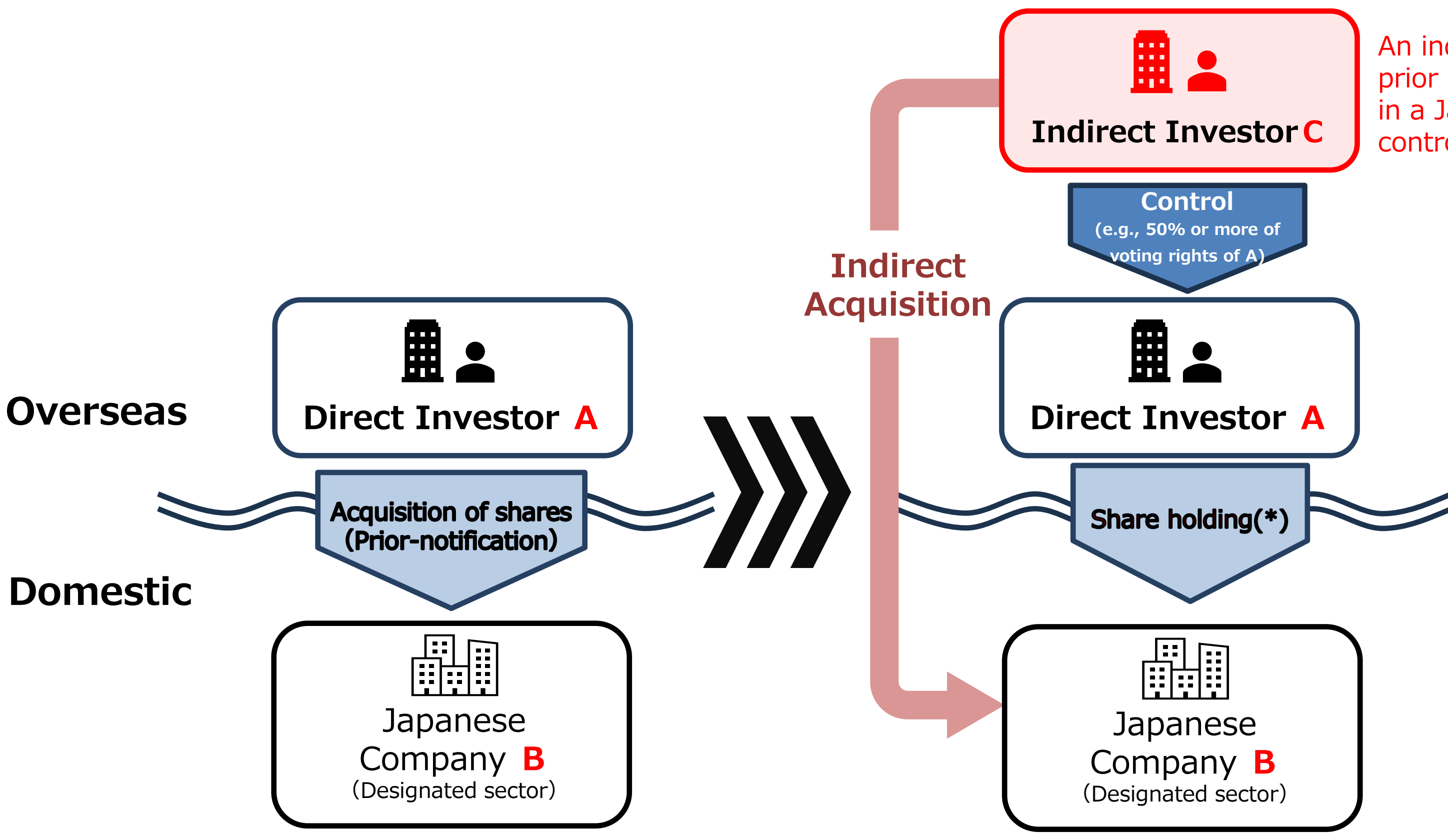
RMMs can be changed in accordance with prior notification

Any concerns

Changes cannot be made (or alternative measures can be requested)

Addressing indirect investment

✓ **Indirect investment**—a foreign investor ("C" in the figure below) acquires the control of a foreign entity ("A") that holds shares or voting rights of a Japanese company ("B")—**is to be added to the scope of foreign investment screening**.



An indirect investor (C) is required to file a prior notification when it indirectly invests in a Japanese company (B) by acquiring control of a direct investor (A)

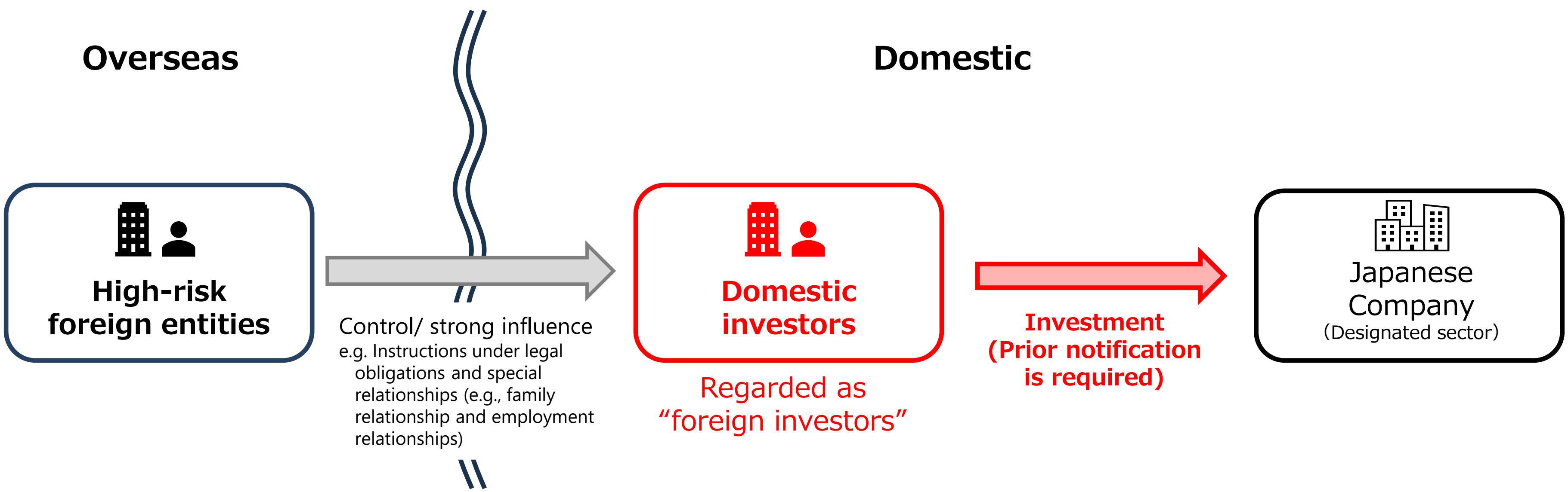
(*)The threshold for inward direct investment in Japanese companies depends on the risk profile of indirect investors.

- ✓ Investors who cannot use the exemption of prior-notification
  – 1% or more of total shares
- ✓ General investors
  – 50% or more of total shares (holdings of less than 50% are exempt)

Domestic investment activities under the control/strong influence of high-risk foreign entities

- ✓ The current foreign investment screening system applies to investments made by Japanese companies in which non-residents or foreign investors hold 50% or more of the voting rights.
- ✓ To prevent circumvention, the Act also **applies foreign investment screening to domestic investors who are under the control/strong influence of high-risk foreign persons* and undertake investment activities for the benefit of those high-risk foreign entities**.

*High-risk foreign persons = Foreign persons who cannot use the exemption of prior-notification (such as foreign governments and state-owned enterprises)

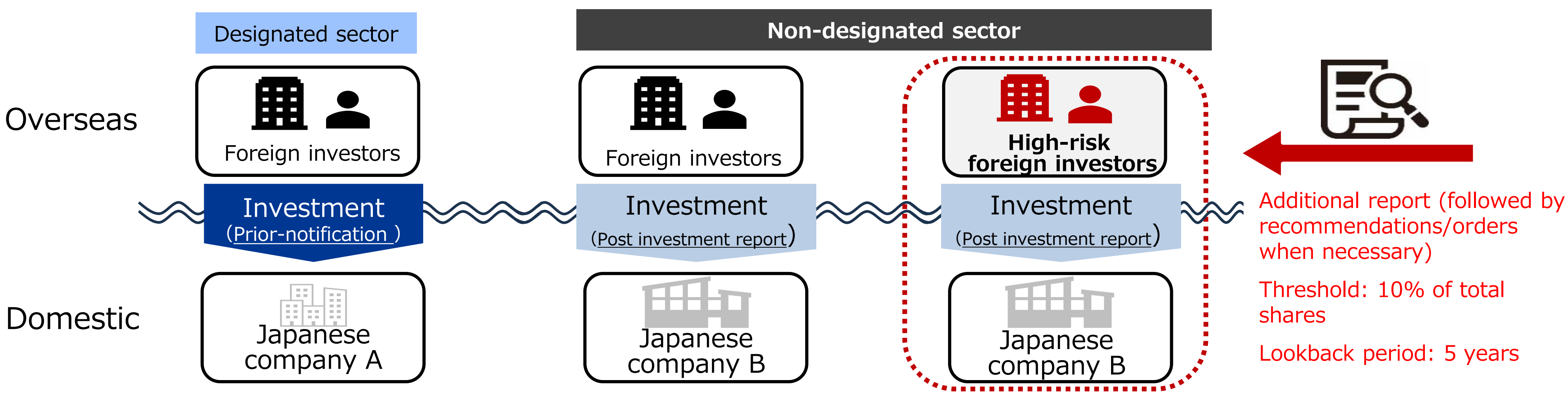


Responding to national security risks in non-designated business sectors

- ✓ Under the current law, only a "post investment report" is required for 10% or more acquisition of shares in non-designated business sectors.

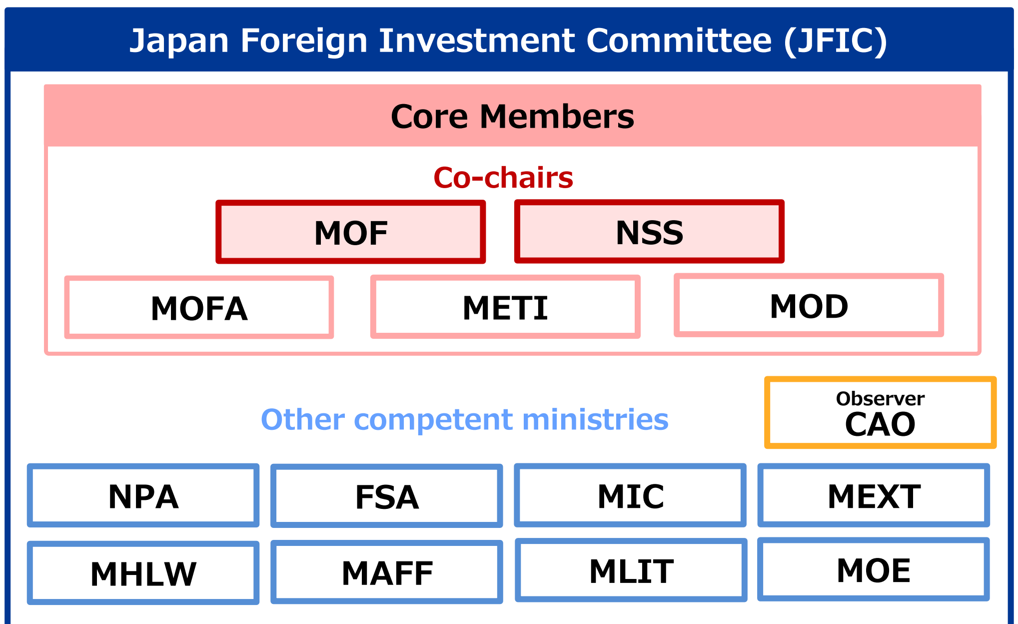
- ✓ **The Act enables the authorities to require high-risk foreign investors* to submit an additional report in response to national security risks that have materialized arising from investment activities**. This might be followed by recommendations and orders to the extent necessary.

  *High-risk foreign entities = Investors who cannot use the exemption of prior-notification (such foreign governments and state-owned enterprises)



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).



Review of Designated Business Sectors

1. Review of "Software Services Sectors"

To rationalize the scope of designated business sectors, the **prior notification requirement** for "software services sectors" will be **narrowed** based on national security considerations, including cybersecurity.

Core sectors: The prior notification requirement will, in principle, be maintained.

Non-core sectors:

The prior notification requirement will be limited to defined set of services including:

✓ Software services related to **critical infrastructure and essential goods** defined under the Economic Security Promotion Act.

✓ Software services that deal with (i) **large volumes of personal data** or (ii) **technological information managed as trade secrets**.

2. Update from Economic Security Perspectives

✓ Companies that hold **technologies** subject to export control under the FEFTA will be designated as "core designation" (based on technologies, not on business sectors).

✓ Manufacturing related to **magnetic sensors and ship hulls** (which were newly defined as critical goods under the Economic Security Promotion Act) will be added to core sectors.

✓ **Large-scale electricity and gas retail providers** will be designated as core sectors.

✓ Manufacturing related to **"essential medicines for stable supply"**(as designated under the amended Medical Care Act)will be added to designated sectors.

* Revisions under 2. are not expected to materially affect the number of prior-notifications.

Other Reforms

<u>Prior Notification for Director Appointment Approvals</u>

✓ **Prior notification will, in principle, not be required for the reappointment of directors** if they were initially appointed following prior notification.

✓ However, prior notification will still be required if:
(i) the investors are not eligible for the prior notification exemption scheme, or
(ii) there are material changes (e.g., the director's nationality)

<u>Attachment Documents</u>

✓ In almost all cases, the authorities send a questionnaire during the review process and request the following information.

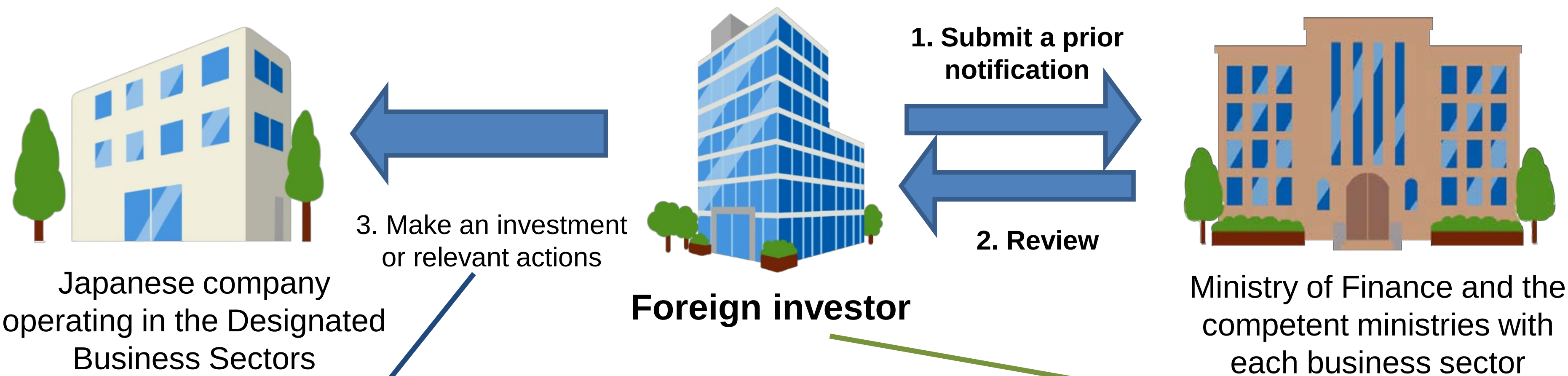
a. Information on investor
b. Information on investee
c. Information on investor's shareholders
d. Information on investor's ultimate parent company

✓ In order to **improve the efficiency and predictability of review process**, such information will be required as **attachment documents** when submitting a prior notification.

Appendix

Outline of Foreign Direct Investment Review

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

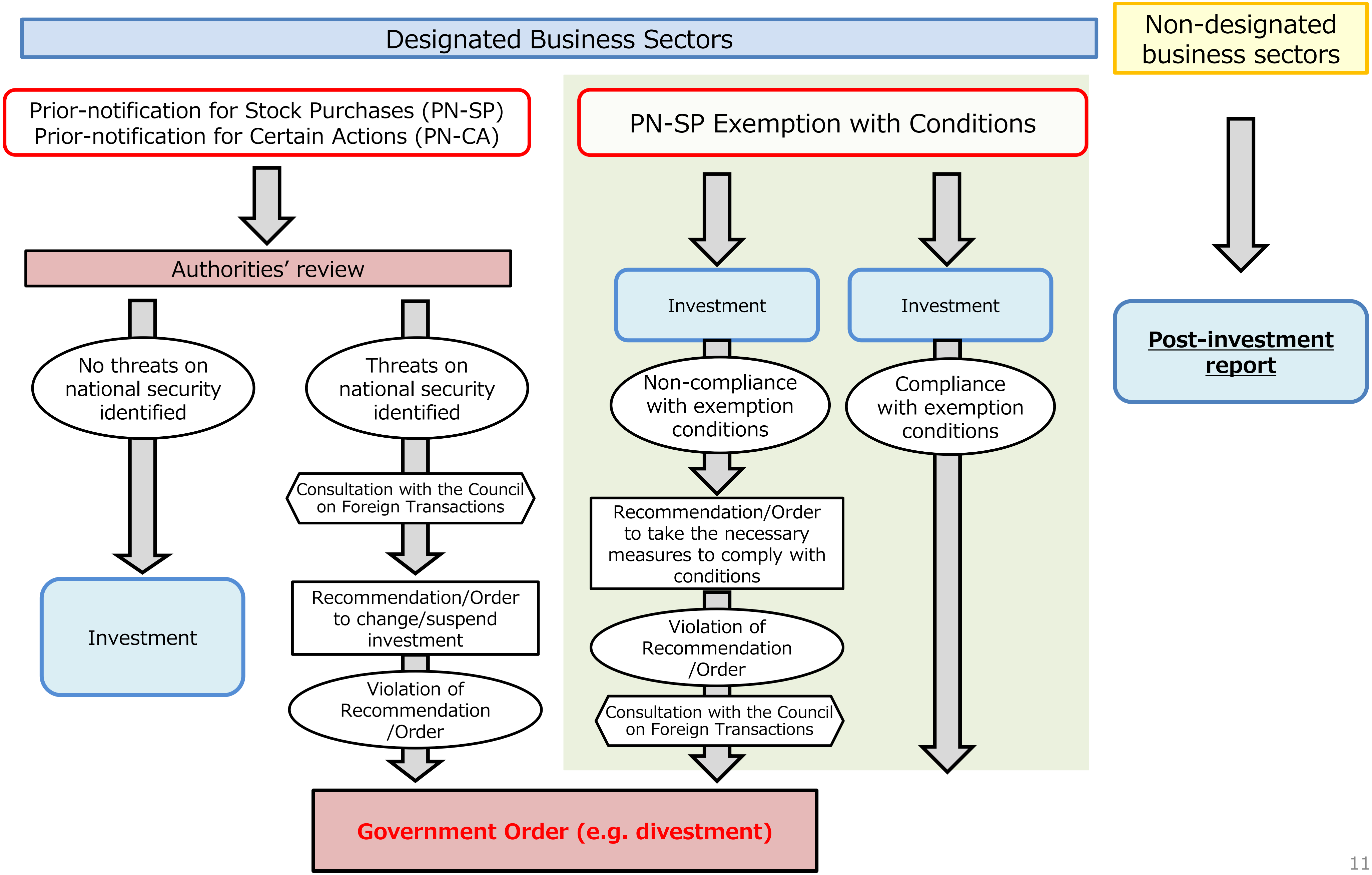
② Corporations and organizations incorporated under foreign laws and regulations

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

Flow of Foreign Direct Investment Review



Designated Business Sectors

From the amendment of the Public Notices in August 2024

【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
- Biological chemicals
- Security services
- Agriculture, Forestry and Fisheries
- Leather manufacture
- Aviation transportation
- Maritime transportation

【"Core Designated Business Sectors"】

All of the following 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 manufacturing, its material manufacturing
- Marine equipment (engine etc.) manufacturing
- Metal 3D Printers mfg., metal powder mfg.
- Manufacture of multifunctional machines
- Manufacture of fibre optic cables

Part of the following sectors

- Cybersecurity-related; Electricity; Gas; Telecommunications; Water supply; Railway; Petroleum (incl. wholesale of natural gas)

【"Non-Core Designated Business Sectors"】

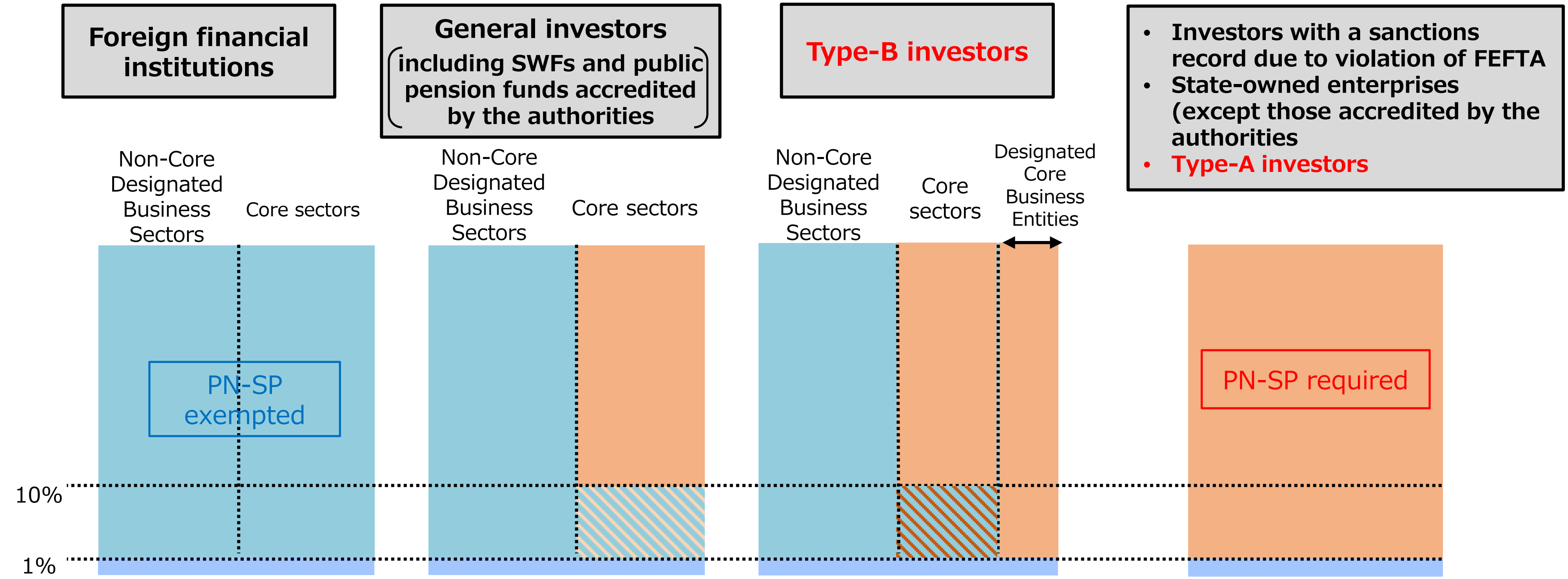
Part of the following sectors

- Cybersecurity-related; Electricity; Gas; Telecommunications; Water supply; Railway; Petroleum

All of the following sectors

- Heat supply
- Broadcasting
- Public transport bus
- Biological chemicals
- Security services
- Agriculture, Forestry and Fisheries
- Leather manufacture
- Aviation transportation
- Maritime transportation

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	