



Japan's Foreign Exchange and Foreign Trade Act: Today and Beyond



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I. Introduction

Over the past five years, Japan's approach to foreign direct investment ("FDI") has undergone a significant transformation. Although investment remains "free in principle," the Foreign Exchange and Foreign Trade Act ("FEFTA") has been recalibrated to scrutinize transactions that may affect national security, public order, public safety, or the smooth management of the economy. In practical terms, the regime has moved beyond box-ticking toward risk-based screening, sector specific scoping, and post-closing monitoring.

Two inflection points illustrate the shift. First, the 2020 amendments lowered the threshold of prior notification for acquisitions of shares or voting rights of listed companies engaged in "designated" business sectors from 10% to 1%, while introducing a prior notification exemption scheme to preserve liquidity for passive foreign investors. Second, as illustrated below, from 2023 to 2025, FEFTA expanded "core" business sectors and tightened prior notification exemptions by adding new investor¹ categories and a "designated core business entities" concept, emphasizing economic security and supply-chain resilience.²

2023 Amendments ³	2024 Amendments ⁴
<ul style="list-style-type: none"> • Import of fertilizers (potassium chloride, etc.) • Manufacture of machine tools and industrial robots and their parts (speed reducer, servo mechanism and programmable logic controller) • Manufacture of storage batteries and their parts and materials • Manufacture of permanent magnets and their parts and materials 	<ul style="list-style-type: none"> • Manufacture of equipment related to the manufacture of semiconductors (machinery, appliances, parts, supplies and materials used mainly for the manufacture of semiconductors) • Manufacture of machine tool components (machine tool components such as ball screws, linear guides and linear scales)

1. Ministry of Finance ("MOF"), *Rules and Regulations of the Foreign Exchange and Foreign Trade Act*, April 24, 2020, p. 2, available at https://www.mof.go.jp/english/policy/international_policy/fdi/kanrenshiryoku01_20200424.pdf.

2. MOF, *Addition to the Core Business Sectors of the FEFTA to Secure Stable Supply Chains*, available at https://www.mof.go.jp/english/policy/international_policy/fdi/relateddocument_20230424.pdf, and https://www.mof.go.jp/english/policy/international_policy/fdi/relateddocument_20240816_1.pdf; MOF, *The Overview of the Current FDI Screening System under FEFTA*, pp. 2-5, available at https://www.mof.go.jp/policy/international_policy/gaitame_kawase/press_release/relateddocument_20250331_2.pdf.

3. MOF, *Addition to the Core Business Sectors of the FEFTA to Secure Stable Supply Chains*, available at https://www.mof.go.jp/english/policy/international_policy/fdi/relateddocument_20230424.pdf.

4. *Id.*, available at https://www.mof.go.jp/english/policy/international_policy/fdi/relateddocument_20240816_1.pdf.



2023 Amendments	2024 Amendments
<ul style="list-style-type: none"> • Manufacture of marine engines (two-stroke diesel engines for civil marine use with a continuous maximum output of 735 kW or more), echo sounders and propellers • Wholesales of natural gas • Refining of metals and mineral products • Manufacture of metal 3D printers metal powder 	<ul style="list-style-type: none"> • Manufacture of marine engines (four-stroke diesel engines for civil marine use with a continuous maximum output of 735 kW or more) • Manufacture of fiber optic cables (quartz-based optical fibers and fiber optic strands) • Manufacture of multifunctional machines (machines and appliances with the ability to send and receive data and multiple functions, such as copying and scanning)

[Figure 1: Overview of Core Business Sectors Added from 2023 to 2025]

For foreign investors and their advisers, FEFTA has therefore become an early gating issue rather than a peripheral compliance check. The regime now may directly influence deal structuring, transaction timelines, and governance arrangements, even for minority or activist driven investments.

II. Overview of FEFTA’s Inward Direct Investment Review Framework

FEFTA defines an “inward direct investment” broadly. The rules extend far beyond M&A control: even 1% acquisitions in listed companies, director appointments, business-transfer proposals, joint voting arrangements, and virtually all acquisitions of unlisted shares fall within its scope. The 1% trigger in designated sectors means that even limited stake-building may require prior notification unless an exemption applies.⁵

Although FEFTA’s default rule is post-investment reporting, investments involving designated (or core)

business sectors require prior notification and a standstill.⁶ These sectors, such as defense, nuclear power, telecom, energy, critical infrastructure, and advanced technologies, are periodically updated and have expanded alongside economic-security concerns.⁷

Prior notifications are filed through the Bank of Japan and reviewed by the MOF and relevant ministries, normally within 30 days, unless shortened or extended up to five months.⁸

FEFTA’s exemption scheme does not require prior notification for certain portfolio investments, provided investors refrain from board appointments, business-transfer proposals, and accessing sensitive non-public technology.⁹ Financial institutions may receive broader relief, while non-financial investors face stricter limits in core sectors. Amendments, which took effect in May 2025, introduced Type-A and Type-B investor classifications and “designated core business entities,” narrowing the eligibility for exemption.¹⁰

5. See Ai Kishimoto, *Amendments to the Foreign Exchange and Foreign Trade Act of Japan (Part 1)*, Oh-Ebashi Newsletter, 2020 Spring Issue, available at https://www.ohebashi.com/jp/newsletter/NL_en_2020spring_202003.pdf, and *Amendments to the Foreign Exchange and Foreign Trade Act of Japan (Part 2)*, Oh-Ebashi Newsletter 2020 Summer Issue, available at https://www.ohebashi.com/jp/newsletter/NL_en_2020summer.pdf.

6. FEFTA, art. 27, para. 1.

7. MOF, *Publication of the Amendment to the Public Notices adding the core business sectors of the Foreign Exchange and Foreign Trade Act to secure stable supply chains*, April 23, 2023, available at https://www.mof.go.jp/english/policy/international_policy/fdi/relateddocument_20230424.pdf, and *Publication of the amendment to the Public Notices adding the core business sectors of the Foreign Exchange and Foreign Trade Act to secure stable supply chains*, August 16, 2024, available at https://www.mof.go.jp/english/policy/international_policy/fdi/20240814091417.html.

8. FEFTA, art. 27, paras. 2, 3 and 6.

9. FEFTA, art. 27-2, para. 1, ministerial public notice providing the exemption criteria, items 1 to 3.

10. MOF, *The Cabinet Approved the Amendment of Cabinet Order on Inward Direct Investment*, p. 3, April 1, 2025, available at https://www.mof.go.jp/english/policy/international_policy/fdi/News_and_Communications/relateddocument_20250331_3.pdf.



Revised Exemption Scheme for Prior-notification Requirement				
<In case of acquisition of listed shares>				(in red: to be newly introduced this time)
Types of investors	Foreign financial institutions (subject to regulations/supervisions under financial regulatory laws in Japan or other jurisdictions)	General investors (including SWFs and PPFs accredited by the authorities)	Type-B investors (New category)	<ul style="list-style-type: none"> Investors with a sanctions record due to violation of FEFTA SOEs and Foreign governments Type-A investors
Investee's business	Exemption of prior-notification applicable only when complying with exemption conditions			<ul style="list-style-type: none"> Prior-notification required *Exemption NOT applicable
Other Designated Business Sectors				
As for the shares of a listed company, prior-notification is required for acquisition of 1% or more of shares	Core sectors	(Less than 10%) Exemption conditions + additional conditions on Core Sectors' Business Activities	(Less than 10%) Exemption applicable only when complying with exemption conditions + additional exemption conditions on Core Sectors' Business Activities +New Additional Conditions for Type-B investors	(10% or more) Prior-notification required *Exemption NOT applicable
		Designated Core Business Entities (New category)	Prior-notification required *Exemption NOT applicable	

<In case of acquisition of unlisted shares> Prior notification has been required for all investors acquiring shares in core sectors under the current system. This amendment categorise Type-A investors as those who cannot use the prior notification exemption scheme, as in the case of listed shares, and prior notification is also required for the acquisition of unlisted shares in non-core designated sectors.

[Figure 2: Revised Exemption Scheme for Prior-notification Requirement¹¹]

Breaching exemption conditions, such as taking board seats or accessing sensitive data, can retroactively invalidate an exemption. Authorities focus on substance over form, meaning even small stakes can be treated as conferring influence where sensitive access or de facto control exists.

as technology leakage, supply-chain robustness, and foreign-government links, reflecting the global convergence of investment screening with economic security policy.¹²

III. Enforcement and Operational Trends

1. Volume of filings and administrative posture

Following the 2019–2020 reforms, prior notifications surged (e.g., thousands annually versus hundreds pre-reform), and authorities report enhanced screening and post-transaction monitoring. Reviews now increasingly focus on qualitative risk factors, such

11. *Id.*

12. MOF, *Foreign Exchange and Foreign Trade Act: Foreign Investment Screening System Annual Report (FY2024)*, p. 23, June 30, 2025, available at https://www.mof.go.jp/english/policy/international_policy/fdi/Data/annual_report2024_en.pdf.



Number of Prior Notification(PN) from FY2015 to FY2024

- The 2019 amendment of the Foreign Exchange and Foreign Trade Act has lowered the threshold for prior notification for stock purchases (PN-SP) with regard to the acquisition of a listed company's stocks from 10% to 1%. The amendment also introduced mandatory prior notification for certain actions (PN-CA), namely, (i)voting at the shareholder's meeting for nomination of the foreign investor itself or a related person as a board member of the investee company and (ii)voting at the shareholder's meeting for a proposal, made by those foreign investors, to transfer or dispose of the investee company's business activities in the designated business sectors. On the other hand, the amendment introduced an exemption scheme for PN-SP for investors who comply with certain conditions.
- The number of prior-notifications for FY2024 is as follows.
(Note: The number for 2020 is not comparable with other years due to the full implementation of FEFTA in June 2020.)



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

[Figure 3: Number of Prior Notifications from FY2015 to FY2024¹³]

2. Heightened sensitivity in semiconductors and advanced technology

Sectors attracting intensified attention include semiconductors, advanced electronics, communications, energy infrastructure, and other dual-use or critical-input activities. The “core” expansion in 2024 and the 2025 narrowing of exemptions signal sustained vigilance, with conditions and behavioral commitments used to mitigate residual concerns short of prohibition.¹⁴

IV. Council Report for Further Amendment of FEFTA and Relevant Regulations

On January 7, 2026, the Foreign Exchange and Foreign Investment Council published the report titled “Report

on the Framework for the Inward Direct Investment Screening System, etc.” This report mainly stated the following issues:

1. Review of the scope of the application based on risk

The report stated that in trying to both promote inward direct investment (with a target of JPY 120 trillion in outstanding FDI stock by 2030) and ensure economic security, Japan should review the inward investment screening framework under FEFTA. Given that prior notifications have increased sharply (i.e., from 594 cases in FY 2018 to 2,093 cases in FY 2024), the report noted that the scope should be rationalized in line with the attendant risk.

13. *Id.*

14. MOF, *The Cabinet approved the Amendment of Cabinet Order on Inward Direct Investment*, p. 3, April 1, 2025, available at https://www.mof.go.jp/english/policy/international_policy/fdi/News_and_Communications/relateddocument_20250331_3.pdf.

15. See https://www.mof.go.jp/about_mof/councils/customs_foreign_exchange/sub-foreign_exchange/report/20260107_bessi.pdf (in Japanese).



Specifically:

- (a) for shareholder actions, prior notification is unnecessary for approvals of the reappointment of the same director(s) where there is no material change in circumstances; and
- (b) the designated business of ICT-related businesses should be narrowed down to sectors that are truly necessary from certain perspectives such as cybersecurity.

2. Clarification of risk mitigation measures framework

In addition, the report argued that risk mitigation measures should be clarified and clearly made part of the prior notification form. Previous risk mitigation measures were implemented as part of administrative guidance, and their legal basis and the consequences of non-compliance were not always clear. The report stated that investors should be permitted to propose or revise such measures in their filings during the review process. It further recommended clarifying the authorities' powers so that, when deemed necessary, they may issue recommendations or orders not only to modify or discontinue an investment, but to implement specific risk mitigation measures. In addition, the report proposed that any post closing changes to the risk mitigation measures submitted in the filing should require prior notification and another review.

3. Indirect acquisitions and foreign-influenced investments

The report also highlighted the risks arising when a foreign investor gains effective control over a Japanese

company not through a direct share acquisition, but by acquiring a foreign parent or an entity that already holds shares in the Japanese firm. Such “indirect acquisitions” may allow foreign investors to circumvent screening requirements. Therefore, the report proposed adding certain indirect control-acquiring transactions to the definition of a regulated inward investment and requiring prior filing when a foreign investor gains control of an intermediate holding entity. It also recommended treating domestic investors as foreign investors when they act under the instruction or influence of a foreign party to prevent regulatory evasion and maintain national-security safeguards.

V. Conclusion

A purely “formal” understanding of FEFTA is no longer sufficient. While Japan remains fundamentally open to foreign investment, the screening framework has evolved into a highly granular, security driven architecture featuring a 1% threshold in designated sectors, conditional exemptions with defined compliance obligations, and an expanding set of activities subject to review. For overseas legal teams, the practical implications are becoming increasingly clear: conduct legal assessments at an early stage, structure transaction rights in a manner consistent with exemption parameters, and work closely with Japanese counsel to anticipate, prepare for, and strategically navigate the review process.

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