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Japan
Investing In

Contributor

Oh-Ebashi LPC &
Partners

Norihiro Sekiguchi

Partner | norihiro.sekiguchi@ohebashi.com

Takashi Koyama

Counsel | takashi.koyama@ohebashi.com

This country-specific Q&A provides an overview of investing in laws and regulations applicable in Japan.

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Japan: Investing In

1. Please briefly describe the current investment climate in the country and the average volume of foreign direct investments (by value in US dollars and by deal number) over the last three years.

According to the "Balance of Payments" of the Ministry of Finance and Bank of Japan, FDI flows to Japan in 2024 decreased by 15.0% year-on-year to 17.2 billion US dollars. It was 20 billion US dollars in 2023, and 9.2 billion US dollars for the period of January-April 2025.

Looking at this figure in 2024 by type of capital, equity capital was 3.7 billion US dollars, which was 8.5 billion US dollars in 2023, reinvestment of earnings was 12.7 billion US dollars, while debt instruments, which represent the lending and borrowing of funds between enterprises with capital ties, was 0.7 billion US dollars, which was in the negative (i.e., a net outflow of 0.2 billion US dollars) in 2023.

Breaking down FDI flow to Japan (asset liability principle) in 2024, by region, Europe accounted for the highest amount at 16.0 billion US dollars, increasing by 281.3% from the previous year, followed by Asia at 10.0 billion US dollars, down 13.3% and Oceania at 2.2 billion US dollars. As for investments from North America, the United States recorded a net withdrawal of 9.0 billion US dollars, primarily in the financial and insurance sectors, resulting in a net withdrawal of 8.2 billion US dollars for North America as a whole.

2. What are the typical forms of Foreign Direct Investments (FDI) in the country: a) greenfield or brownfield projects to build new facilities by foreign companies, b) acquisition of businesses (in asset or stock transactions), c) acquisition of minority interests in existing companies, d) joint ventures, e) other?

The typical form of FDI is M&A, which includes the acquisition of businesses through stock or asset transactions. In 2024, the cross-border M&A deals into Japan (i.e., inbound M&A deals from Japan's perspective), based on a completion date, totaled 13.9 billion US dollars, decreased by 6.9% compared with the previous year. Although the number of inbound M&A deals in 2024 was 143, slightly down from the previous year (151 deals), the number has now exceeded 120 for six consecutive years. As in the previous year, investment funds continued to be the main buyers, accounting for the top 6 inbound M&A deals in 2024 by value.

As for greenfield investments in Japan, the number in 2024 (based on the date of announcement) was 223, exceeding 200 cases for the first time in five years. The largest number of investments by industry was in software/IT services (38 cases). Software/IT services has had the highest number for the past 20 years, and active participation in this industry continues.

3. Are foreign investors allowed to own 100% of a domestic company or business? If not, what is the maximum percentage that a foreign investor can own?

Foreign investors are generally not prohibited from holding 100% equity in a Japanese corporation. However, from the perspective of security policy, industrial policy, and economic policy, laws and regulations may restrict the acquisition and holding of voting rights by foreign investors, to a certain extent, in companies engaged in certain types of business (Please see Question 8 for more details).

4. Are foreign investors allowed to invest and hold the same class of stock or other equity securities as domestic shareholders? Is it true for both public and private companies?

Yes, foreign investors are allowed to invest and hold the same class of stock as domestic shareholders in both public and private companies.

5. Are domestic businesses organized and managed through domestic companies or primarily offshore companies?

Japanese businesses are typically run by domestic entities.

6. What are the forms of domestic companies?

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Briefly describe the differences. Which form is preferred by domestic shareholders? Which form is preferred by foreign investors/shareholders? What are the reasons for foreign shareholders preferring one form over the other?

There are four forms of domestic companies under the Companies Act: joint stock company (*kabushiki kaisha*), limited liability company (*godo kaisha*), general partnership company (*gomei kaisha*), and limited partnership company (*goshi kaisha*).

A joint stock company is the most commonly used form for domestic companies. Shares of a joint stock company are in the form of equally divided proportional units, and generally, each member of such company (a shareholder) is not directly liable to the creditors of the company and is not liable to the company beyond the subscription amount of the shares subscribed to by it, unless the corporate veil is pierced.

A limited liability company is constituted by limited liability members only. The limited liability company was newly introduced in 2006 through the enactment of the Companies Act and is modeled on the limited liability company in the US.

A general partnership company consists only of unlimited liability members. Any member of a general partnership company is directly liable for the full amount of the debts and obligations of such company to its creditors.

A limited partnership company consists of both unlimited liability members and limited liability members.

Which form is preferred by domestic shareholders?

Domestic shareholders usually prefer a joint stock company as the share ownership and management of such company may be legally separated. Another substantial reason for choosing a joint stock company is the overwhelmingly high level of social reputation and brand cachet given to joint stock companies by various stakeholders, such as commercial banks, customers, clients, and employees, compared to other forms. Domestic shareholders also often prefer a limited liability company as it provides flexibility in its internal governance structure, such that the articles of incorporation can stipulate the method of preparation and approval of financial statements, and there is no need to publicize financial statements. A general partnership company and a limited partnership company are rarely used and, when used, they tend to be used for family-owned, small businesses.

Which form is preferred by foreign investors/shareholders?

What are the reasons for foreign shareholders preferring one form over the other?

Foreign investors/shareholders generally prefer a joint stock company or a limited liability company for the same reasons as those stated above. A general partnership company and a limited partnership company are often not suitable for their use due to the nature of the unlimited liability of its members. However, investors from some jurisdictions such as the United States may prefer a limited liability company since its regulations under the Companies Act are more flexible than those of joint stock companies, and US investors may enjoy pass-through tax treatment under the "check-the-box" regulations of the US federal tax regulations on profits and losses in a limited liability company. Prominent Japanese subsidiaries of US companies such as Apple, Amazon, and Google are incorporated in the form of limited liability companies.

7. What are the requirements for forming a company? Which governmental entities have to give approvals? What is the process for forming/incorporating a domestic company? What is a required capitalization for forming/incorporating a company? How long does it take to form a domestic company? How many shareholders is the company required to have? Is the list of shareholders publicly available?

Which governmental entities have to give approvals?

Companies are legally formed upon the registration of their incorporation with the Legal Affairs Bureau having jurisdiction over the location of their head office. Under the Companies Act, the incorporation does not require approval by any authority other than the Legal Affairs Bureau.

What is the process for forming/incorporating a domestic company?

The overall procedure for the incorporation of a joint stock company is as follows:

a. Determining the promoter(s);

b. Preparation and notarization of the articles of incorporation;

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c. Subscription of shares;

d. Selection of directors, etc.; and

e. Registration of incorporation.

As to item (b) above, the initial articles of incorporation, which are to be notarized, must contain certain provisions concerning the business objectives, trade name, location of the principal office, value (or minimum value of assets to be contributed at the time of incorporation), and the names and addresses of the promoters.

There are two types of incorporation procedures for a joint stock corporation:

(i) Incorporation by promoter (*hokki setsuritsu*), for which all shares to be issued upon incorporation are subscribed for only by the promoter(s); and

(ii) Incorporation with offering (*boshu setsuritsu*), for which initial shares are subscribed for not only by the promoter(s) but also by other subscribers.

One of the most significant practical differences between the two incorporation procedures described above is that in the incorporation with offering, the paid-in subscriptions must be kept in the fee-based custody of a designated financial institution until the registration process is completed, while such custody arrangement is not required in the incorporation by promoter. Therefore, incorporation by promoter is chosen in many cases.

What is a required capitalization for forming/incorporating a company?

No minimum capital amount is required for incorporation under the Companies Act, so the initial capital amount may be 1 Japanese yen or more.

How long does it take to form a domestic company?

It normally takes about one month to file the registration application for a joint stock company, taking into account the time necessary for collecting the necessary information, drafting the necessary documents (including finalizing the initial articles of incorporation and making an appointment with the office of the notary public for the notarization of the articles), and making arrangements with a bank, as well as making arrangements to obtain a company seal. It may be shorter to form the other forms of domestic companies in Japan because the notarization of the initial articles of incorporation is not required.

How many shareholders is the company required to have?

To form a joint stock company, at least one shareholder is required.

Is the list of shareholders publicly available?

The list of shareholders ("Shareholders' List") of a joint stock company is not publicly available. However, a joint stock company must keep a Shareholders' List in writing or in an electronic form at its head office, and shareholders and creditors of the company may, at any time during the business hours of the company, make a request for the inspection or copying of such list.

8. What are the requirements and necessary governmental approvals for a foreign investor acquiring shares in a private company? What about for an acquisition of assets?

The acquisition of shares in a private company by a foreign investor, except for the specified acquisition described below, is treated as an FDI under the Foreign Exchange and Foreign Trade Act ("FEFTA"). Depending on each case, there may be a requirement to make a prior notification or an *ex post facto* submission of an investment report under the FEFTA whenever a foreign investor acquires shares in a private company (Please see Question 19 for more details).

It should be noted that the acquisition of shares in an unlisted company by a foreign investor from another foreign investor is not deemed an FDI but is classified as a "specified acquisition" under the FEFTA. A specified acquisition may be subject to a prior notification under certain circumstances, like an FDI, but if prior notification is not required, then no *ex post facto* investment report will also be required for the specified acquisition, unlike in the case of an FDI.

However, depending on the industry, the ratio of shares that can be held by foreign entities may be regulated. Specifically, investments in NTT are regulated, and foreign investment restrictions are also imposed under the Mining Act, Radio Act, Broadcasting Act, Civil Aeronautics Act, and Freight Forwarding Business Act.

The acquisition of assets from a Japanese entity through succession of a business by way of acquisition of business, absorption-type company split or merger is also treated as an FDI under the FEFTA and thus the above requirements are applied.

Further, (i) the transfer by a Japanese resident to a non-

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resident of securities, such as public bonds, corporate bonds, shares, credits, treasury bills, profit-sharing securities, coupons, and commercial papers, etc. (except for transactions of shares that are treated as FDI or specified acquisition) where the price exceeds an amount equivalent to 100 million Japanese yen, and (ii) the acquisition of real estate in Japan or rights related thereto by a non-resident for commercial purpose is treated as a "capital transaction" under the FEFTA and are subject to, in principle, *ex post facto* investment reporting requirements (in the case of (i), the relevant resident (transferor) must submit an *ex post facto* investment report).

9. Does a foreign investor need approval to acquire shares in a public company on a domestic stock market? What about acquiring shares of a public company in a direct (private) transaction from another shareholder?

There may be requirements of prior notification and/or *ex post facto* submission of an investment report when a foreign investor acquires shares in a public company on a domestic stock market or in a direct (private) transaction from shareholders (Please see Question 19 for more details). Also, as mentioned in Question 8, depending on the industry, the ratio of shares that can be held by foreign entities may be regulated.

10. Is there a requirement for a mandatory tender offer if an investor acquired a certain percentage of shares of a public company?

If a person intends to acquire shares that would result in acquiring more than one-third of the voting rights of a listed company, the person intending to acquire those shares must conduct the transaction in accordance with the Japanese tender offer regulations. The buyer would need to offer a uniform purchase price to all the shareholders, and purchase the tendered shares within a certain period of time pre-determined by the buyer. The buyer may set a minimum number of shares to be acquired in advance, and if the number of shares tendered during the tender offer period does not reach such minimum, the tender offer will fail. As long as the buyer does not aim to acquire two-thirds or more of the voting rights, it will have no obligation to purchase all the shares. It is possible to set a maximum number of shares to be acquired in advance so that the buyer's post-acquisition voting rights in the relevant listed company are less than two-thirds of the total voting rights.

It should be noted that the tender offer regulations were amended in May 2024 and will come into effect in May 2026. The main amendments were (a) lowering the one-third threshold of a mandatory tender offer to 30% in line with that of other major jurisdictions and (b) mandatory application of a tender offer for the acquisition of shares of more than 30%, even in market trades, which are currently not subject to the requirement of a tender offer. With this amendment, the previous complicated regulations were eliminated, including abolishment of the restrictions on "rapid purchase," namely the regulations that restricted cases where a buyer acquires voting rights in excess of one-third of the total voting rights through the acquisition of listed shares through a combination of transactions within and outside the market within three months, without a tender offer process. As a result, the requirements for triggering a tender offer have been organized into only two categories: (i) situations where a purchase is made and the shareholding ratio exceeds 30% (including further purchase by a buyer who already owns more than 30%), and (ii) situations where a purchase is made through off-market transactions from more than 10 parties within 61 days, including the day of the purchase, and the shareholding ratio increases from more than 5% to 30%.

There may be several practical implications from this amendment. Among them, the "rapid purchase" rule, as amended, will no longer prohibit transactions in which a buyer acquires listed shares held by a parent company or major shareholder up to 30% or less outside the market and then makes a tender offer to acquire more than 30% of the shares. Until now, if a hostile bidder initiated a tender offer after a friendly bidder acquired less than 30% of the target shares from a major shareholder of the target company outside the market, to establish an alliance, the friendly bidder could not initiate a competing tender offer for three months as a white knight because of the "rapid purchase" rule. However, after the amendment, such transactions will generally be possible.

The amendments also include revisions that could have the effect of reducing "parent-subsidiary listings." Under the existing regulations, a parent company holding more than 50% of the shares of a listed subsidiary can purchase up to less than two-thirds of the shares of such listed subsidiary without a tender offer as an "exempt purchase." Based on this exemption, there have been tender offer cases to convert listed companies into subsidiaries, where the limit of shares to be purchased is set at a level between 51% to two-thirds, and the target company maintains its listing after becoming a subsidiary, and then acquires additional shares up to less than two-thirds without a tender offer for various

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purposes. However, under the current amendment, this exemption will be eliminated, and a major shareholder holding more than 30% will only be able to buy additional shares without commencing a tender offer only up to "0.5% in 6 months," as an exception to category (i) above. Since the methods for parent companies to purchase more shares of listed subsidiaries will narrow, there may be fewer cases where the limit of shares to be purchased is set at less than two-thirds in a tender offer to maintain the listing of the target company.

11. What is the approval process for building a new facility in the country (in a greenfield or brownfield project)?

If a non-resident individual or foreign entity builds a factory, this is treated as an FDI under the FEFTA and if the business of such factory includes that which falls within the Designated Business Sectors (defined in Question 19), a prior notification is required, except for certain businesses that are regulated by other laws such as the banking business, general gas pipeline business and general electricity transmission and distribution business. But if prior notification is not required (such as when the business does not fall within the Designated Business Sectors), then no ex post facto investment report will also be required for the investment.

In addition to the above FDI regulations, in practice, there are many relevant laws to regulate the building of a new facility in Japan. For instance, the City Planning Act authorizes local prefectures to designate city planning areas and quasi-city planning areas and regulates the usage of districts and zones therein. The Building Standards Act regulates, for instance, building coverage ratio, floor-area ratio, and the building height of a facility. Also, the Factory Location Act is applicable to factories for manufacturing, gas supply, heat supply and electricity supply (except for hydroelectric, geothermal and solar power plants) with site areas of 9,000 m^2 or more, or with building areas of 3,000m^2 or more, to regulate the ratio of the production facilities and environmental facilities. Further, the Landscape Act, the Fire Service Act, the Water Supply Act, the Road Act, the Act on Waste Management and Public Cleansing, the Cultural Properties Preservation Act, etc. are also applicable.

12. Can an investor do a transaction in the country in any currency or only in domestic currency? a) Is there an approval requirement (e.g. through Central Bank or another governmental agency) to use foreign currency in the country to pay: i. in an acquisition, or, ii. to pay to contractors, or, iii. to pay salaries of employees? b) Is there a limit on the amount of foreign currency in any transaction or series of related transactions? i. Is there an approval requirement and a limit on how much foreign currency a foreign investor can transfer into the country? ii. Is there an approval requirement and a limit on how much domestic currency a foreign investor can buy in the country? iii. Can an investor buy domestic currency outside of the country and transfer it into the country to pay for an acquisition or to third parties for goods or services or to pay salaries of employees?

Is there an approval requirement (e.g. through Central Bank or another governmental agency) to use foreign currency in the country to pay:

i. in an acquisition, or,
ii. to pay to contractors, or,
iii. to pay salaries of employees?

There is no approval requirement to use foreign currency in an acquisition or to pay contractors in Japan. On the other hand, under the Labor Standards Act, the payment of salaries of employees in Japan must be made in Japanese yen. It is possible to pay the salary of an employee in Japan in foreign currency if such arrangement is agreed upon between the labor union and the employer in a collective agreement.

Is there a limit on the amount of foreign currency in any transaction or series of related transactions?

i. Is there an approval requirement and a limit on how much foreign currency a foreign investor can transfer into the country?

There is no approval requirement or limit on how much foreign currency a foreign investor can transfer into Japan. It should be noted, however, that if the amount of the money transferred from a foreign country into Japan exceeds an amount equivalent to 30 million Japanese yen, such transfer would need to be reported by the recipient who is a Japanese resident to the Minister of Finance through the Central Bank, i.e., the Bank of Japan, after the receipt of such transfer.

ii.Is there an approval requirement and a limit on how much domestic currency a foreign investor can buy in the country?

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There is no approval requirement or limit on how much Japanese yen a foreign investor can buy in Japan.

iii.Can an investor buy domestic currency outside of the country and transfer it into the country to pay for an acquisition or to third parties for goods or services or to pay salaries of employees?

Yes, a foreign investor can validly do these activities. Please also see above.

13. Are there approval requirements for a foreign investor for transferring domestic currency or foreign currency out of the country? Whose approval is required? How long does it take to get the approval? Are there limitations on the amount of foreign or domestic currency that can be transferred out of the country? Is the approval required for each transfer or can it be granted for all future transfers?

Whose approval is required?

In practice, there is no approval requirement for a foreign investor to transfer Japanese yen or foreign currency out of Japan. It should be noted, however, that the government has imposed economic sanctions that cover certain payments to designated foreign persons and entities or for certain purposes, etc., and for the export of means of payment, including cash, to North Korea and Russia under certain conditions. These restricted payments would need the approval of the Minister of Finance.

How long does it take to get the approval?

The approval of certain payments to designated foreign persons and entities or for certain purposes, etc., and for the export of means of payment, including cash, to North Korea and Russia under certain conditions, as discussed above, is unlikely to be granted.

Are there limitations on the amount of foreign or domestic currency that can be transferred out of the country?

Except for the transfer being subject to the above approval requirements, there are no limitations on the amount of foreign currency or Japanese yen that can be transferred out of Japan. However, if the amount of money (regardless of whether it's Japanese yen or foreign currency) transferred from Japan to a foreign country exceeds an amount equivalent to 30 million Japanese yen, such transfer must be reported by the transferor to the Minister of Finance through the Bank of Japan after the transfer. Also, if a person intends to carry means of payment out of Japan, including “cash, etc.,” exceeding the equivalent of 1 million Japanese yen (for North Korea, exceeding the equivalent of 100,000 Japanese yen), that person must declare this to Customs in advance.

Is the approval required for each transfer or can it be granted for all future transfers?

Please see above.

14. Is there a tax or duty on foreign currency conversion?

No consumption tax is charged on foreign currency conversions. If foreign exchange gains arise from a foreign currency conversion, depending on the amount, such gains may need to be declared with the Japanese tax authorities as miscellaneous income.

15. Is there a tax or duty on bringing foreign or domestic currency into the country?

There is no tax or customs duty on bringing foreign currency or Japanese yen into Japan. However, if a person brings into the country means of payment, including “cash, etc.,” exceeding the equivalent of 1 million Japanese yen, that person must declare this to Customs in advance. “Cash, etc.” includes cash (whether Japanese yen or foreign currency), checks (including traveler's checks), promissory notes, and securities (share certificates, government bonds, etc.).

16. Is there a difference in tax treatment between acquisition of assets or shares (e.g. a stamp duty)?

In an acquisition of shares, the buyer is not taxed in principle, but the seller is taxed on the gain from the stock transfer. In addition, neither party will be subject to stamp duty or consumption tax. Since there is no transfer of assets or other assets in the company issuing the shares being transferred, there is no change in the taxation of that company. In a business transfer, taxation occurs for both the seller and buyer. The seller is taxed on the difference between the book value and the transfer price of the transferred assets as gain or loss from the transfer. Unless the seller itself dissolves or liquidates after the transfer of the business, no taxation at the level of the

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seller's shareholders will arise. The buyer does not inherit the seller's tax risk, but neither does it inherit the seller's net operating loss carryforwards. In principle, except for the transfer of land, securities, monetary claims, and cash, the transfer of assets in a business transfer is subject to consumption tax, which is paid by the buyer to the seller who will eventually pay it to the tax authorities. A business transfer is also subject to stamp duty. The amount of stamp duty depends on the amount of the transfer price, with the maximum being 600,000 Japanese yen if the transfer price exceeds 5 billion Japanese yen (Please see Question 17 for more details on stamp duty).

17. When is a stamp duty required to be paid?

Stamp duty is imposed whenever a certain taxable document ("Taxable Document") is created in Japan. The person who created the Taxable Document is generally liable to pay the stamp duty even if such person is a foreign corporation. In principle, the stamp duty is paid by affixing revenue stamps equivalent to the amount of the stamp duty imposed on the Taxable Document to the original Taxable Document. The stamp must be canceled by affixing a seal or signing over the Taxable Document and the stamp. In a business transfer agreement, in practice, at the time of signing, a stamp with an appropriate amount will be affixed on the original agreement and canceled by each party. It is common practice to provide in the business transfer agreement that the burden over the stamp duty will be split equally between the two parties. In the case of electronic contracts, no stamp duty is imposed.

18. Are shares in private domestic companies easily transferable? Can the shares be held outside of the home jurisdiction? What approval does a foreign investor need to transfer shares to another foreign or domestic shareholder? Are changes in shareholding publicly reported or publicly available?

Can the shares be held outside of the home jurisdiction?

In principle, foreign entities may hold shares in domestic companies. However, as discussed in Question 8, depending on the industry, the ratio of shares that can be held by foreign entities may be regulated. Specifically, investments in NTT are regulated, and foreign investment restrictions are imposed under the Mining Act, Radio Act, Broadcasting Act, Civil Aeronautics Act, and Freight Forwarding Business Act. In addition, if an acquisition of shares by a foreign investor is subject to prior notification under the FEFTA, upon screening, the authorities may recommend that the investment be stopped or amended if there are any national security concerns. If the foreign investor does not follow such recommendation, the authorities may order that the investment be stopped or amended (Please see Question 19 for more details).

What approval does a foreign investor need to transfer shares to another foreign or domestic shareholder?

Most unlisted companies in Japan have restrictions on the transfer of their shares in accordance with the Companies Act. When transferring such restricted shares, regardless of the nationality of the parties to the transfer, it is necessary to go through the transfer approval procedures stipulated under the Companies Act (e.g., approval by the board of directors or shareholders' meeting) at the company issuing the shares. Also, when a foreign investor transfers shares in a Japanese corporation to another foreign investor, an "approval" by the authorities is not required, although such transfer of shares is treated as a specified acquisition and prior notification may be required under the FEFTA (Please see Question 19 for more details).

Are changes in shareholding publicly reported or publicly available?

The Companies Act of Japan requires joint stock companies to prepare a Shareholders' List, which includes the names of the shareholders and the number of shares held by each. It is sufficient that this Shareholders' List is kept at the head office of each company, and no notification to the authorities or a public inspection is required. As mentioned in Question 7, except for shareholders and creditors of the company, the right to inspect the Shareholders' List is not granted to outsiders. For listed companies, however, the names of the top 10 shareholders and their respective shareholding ratios are disclosed in an annual securities report that is publicly available. In addition, a person who acquires more than 5% of shares in a listed company is required to file a large shareholding report that is made available to the public. If such shareholding ratio changes by 1% or more, a report on the change in the large shareholding report must be filed. Beneficial shareholders do not appear in a Shareholders' List or annual securities report, while their custodians may appear. Therefore, the names of beneficial shareholders will not become publicly available information. Unlisted companies do not have the disclosure systems above, and it is difficult for anyone other than shareholders and creditors to know the composition of the shareholders and their shareholding ratios unless the company discloses the Shareholders' List to a prospective buyer.

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19. Is there a mandatory FDI filing? With which agency is it required to be made? How long does it take to obtain an FDI approval? Under what circumstances is the mandatory FDI filing required to be made? If a mandatory filing is not required, can a transaction be reviewed by a governmental authority and be blocked? If a transaction is outside of the home jurisdiction (e.g. a global transaction where shares of a foreign incorporated parent company are being bought by another foreign company, but the parent company that's been acquired has a subsidiary in your jurisdiction), could such a transaction trigger a mandatory FDI filing in your jurisdiction? Can a governmental authority in such a transaction prohibit the indirect transfer of control of the subsidiary?

With which agency is it required to be made?

The Ministry of Finance and the relevant Ministry in charge of the business concerned. In practice, an FDI filing is made through the Bank of Japan.

How long does it take to obtain an FDI approval?

A foreign investor who has made a prior notification for its investment cannot close such investment until 30 days have passed from the day the said notification was received. This waiting period may be extended for up to five months. However, the waiting period may also be shortened if the investment concerned is not an FDI which may impair national security. In practice, the waiting period is often shortened to two weeks or less, and the authorities may further shorten this period to that after four business days have passed from the day the notification is received. However, if the Ministry in charge of the business concerned considers that its review cannot be completed within 30 days, the Ministry will often ask the foreign investor concerned to withdraw its prior notification while the Ministry continues its review, and will then ask the foreign investor to resubmit its prior notification when the review is substantially completed.

Under what circumstances is the mandatory FDI filing required to be made?

If a foreign investor makes a certain type of investment (through FDI or specified acquisition) in a business operated by a Japanese company or its subsidiary in Japan, which business falls within the business sectors designated from the perspective of national security ("Designated Business Sectors"; the Designated Business Sectors are divided into "Core Business Sectors" and "Non-Core Business Sectors"), such investor must make a prior notification, through a resident of Japan acting as an agent, to the Minister of Finance and relevant Minister(s) who is in charge of the business concerned ("Competent Minister for the Business"). The prior notification must be submitted within six months before the day the investment is to be made. In addition, for certain types of investments including the acquisition of shares or voting rights, any investor who submits a prior notification and then makes the subject investment after obtaining clearance must also submit an execution report, within forty-five days after the investment, to the Minister of Finance and the Competent Minister for the Business through the Bank of Japan. The Ministry of Finance has published, and regularly updates, for reference purposes only, a list of all listed companies setting forth whether they are doing businesses that (i) do not fall within the Designated Business Sectors, (ii) fall only within the Non-Core Business Sectors, or (iii) fall within the Core Business Sectors (the list as of July 2025 is available for download at http://www.mof.go.jp/policy/international_policy/gaitame_kawase/fdi/gaitouseilist20250715.xlsx.

A foreign investor falling within the coverage of the FEFTA means any one of the following persons who carries out an FDI or a specified acquisition: (i) non-resident individuals; (ii) companies or organizations incorporated under foreign laws, or with their principal office outside Japan; (iii) Japanese companies in which 50% or more of the voting rights are directly or indirectly held by (i) or (ii) (which include subsidiaries of such Japanese companies and any other companies in which 50% or more of the voting rights are held by such Japanese companies and/or their subsidiaries); (iv) partnerships which carry on investment business, or investment limited partnerships, in which 50% or more of the capital investments are provided by foreign investors (these foreign investors also include (iv), the same shall apply in this paragraph) or in which the majority of the managing partners are foreign investors etc.; and (v) companies or organizations in which the majority of the officers or officers with representative authority are non-resident individuals.

The FDIs under the FEFTA include, for instance, (i) acquiring 1% or more shares or voting rights of a listed company; (ii) acquiring any share or equity of an unlisted company; (iii) giving consent to the appointment of a foreign investor or its closely-related person as a board member or corporate auditor of the investee company at the shareholders' meeting; (iv) proposing or giving

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consent to the transfer or disposition of the investee company's business at the shareholder's meeting; (v) establishing a branch, factory or other business office (other than a representative office) by a foreign investor who is a non-resident individual or a foreign company; and (vi) succession of a business from a Japanese entity by way of acquisition of business, absorption-type company split or merger.

The Designated Business Sectors are as follows:

(a) Core Business Sectors

- Manufacturing
    - Items related to weapons, aircraft (including drones), space development, nuclear facilities, and repairing and software ancillary thereto
    - Dual-use goods (subject to list control of the FEFTA)
    - Dual-use technologies (subject to list control of the FEFTA) (i.e., manufacturers, software developers and other engineering service providers etc. who own such technologies)
    - Pharmaceuticals of communicable diseases and "Specially-Controlled Medical Devices"
    - Marine equipment (i.e., certain diesel engines, echo sounders and propellers)
    - Metal 3D printer manufacturing, metallic powder
    - Permanent magnets and their material
    - Machine tools and industrial robots
    - Semiconductors (including their materials) and semiconductor manufacturing equipment
    - Lithium-ion storage batteries and their materials
    - Equipment for semiconductor production (machinery, instruments, parts, materials, and supplies used exclusively for semiconductor manufacturing)*
    - Advanced electronic components such as multilayer ceramic capacitors and their materials*
    - Machine tool components (machine tool parts such as ball screws, linear guides, and linear scales)*
    - Diesel engines for civilian vessels that are four-stroke and have a continuous maximum output of 735 kW or more*
    - Quartz-based optical fibers and optical fiber strands*
    - Multifunction devices (devices equipped with data transmission/reception functions and multiple features such as copying and scanning)*

* These businesses were added to the Core Business Sectors in September 2024.

- Metal mining (including that related to nuclear source material), smelting and refining of important mineral resources etc.

- Construction for improving and maintaining port facilities on designated remote islands

- Fertilizer (e.g., potassium chloride) imports

- Part of the following Sectors: Cybersecurity-related businesses (including certain software businesses, data processing services and Internet support services), Electricity, Gas, Telecommunications, Water supplies, Railways, Petroleum

(b) Non-Core Business Sectors

- Part of the following Sectors, which are not included in the Core Business Sectors: Cybersecurity-related businesses (including computer and communication equipment manufacturing), Electricity, Gas, Telecommunications, Water supplies, Railways, Petroleum

- Heat Supplies, Broadcasting, Public transport buses, Biological chemicals, Security services

- Agriculture, forestry and fisheries, Leather product manufacturing, Air transportation, Maritime transportation

Further, any FDI intended to be undertaken by a foreign investor whose nationality or country of residence is NOT listed in Appendix 1 of the Order on Inward Direct Investment (173 countries and areas are listed therein as of December 2025), or those undertaken by the Iranian government, nationals or entities, which are subject to the prior approval of the U.N. Security Council, etc., require prior notification.

During the screening conducted by the government, if there is a concern that national security may be impaired, etc., the relevant Minister may recommend that the investment be stopped or amended. If the foreign investor does not abide by such Minister's recommendation, the Minister may order to stop or amend the investment. Also, if a prior notification is not made on an investment that requires prior notification, or a false prior notification is submitted, an order to carry-out measures such as the sale of the acquired shares may be issued. The relevant Ministry may also propose certain commitments for an investor that it must abide by, and then grant clearance for the prior notification subject to those commitments,

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instead of issuing an order to stop or amend the investment.

A foreign investor may be exempted from the prior notification requirements for its acquisition of shares or equity in an unlisted company or of 1% or more of shares or voting rights of a listed company, if the company's business falls within the Designated Business Sectors but does not fall within the Core Business Sectors, and as long as the investor abides by the following requirements: (a) such investor or its closely-related person will not become board members of the investee company, (b) such investor will not propose to the general shareholders' meeting the transfer or disposition of the investee company's business activities within the Designated Business Sectors, and (c) such investor will not access non-public information about the investee company's technology relating to the business activities within the Designated Business Sectors.

If a foreign investor intends to acquire 1% or more but less than 10% of the shares or voting rights in a listed company and that company's business falls within the Core Business Sectors, such investor may be exempted from the prior notification requirements as long as it abides by, in addition to the above requirements under items (a) through (c), the following additional requirements: (d) regarding the business activities in the Core Business Sectors, the investor will not attend the investee companies' executive board or committees that make important decisions on these activities, and (e) regarding business activities in the Core Business Sectors, the investor will not make proposals, in written form, to the executive board of the investee companies or its board members requiring their responses and/or actions by certain deadlines.

In addition to the above, only foreign financial institutions may also be exempted from the prior notification requirements for its acquisition of 1% or more of shares or voting rights of a listed company, if the company's business falls within the Designated Business Sectors, regardless of whether the same falls within the Core Business Sectors, as long as the investor abides by the above (a) through (c) requirements ("blanket exemption").

In May 2025, two new categories of foreign investors were introduced. The first category is Specified Foreign Investors, who cannot use any of the above exemption (meaning a prior notification for investment to any of the Designated Business Sectors is mandatory). Specified Foreign Investors are (a) organizations or individuals who have obligations to cooperate with foreign governments in collecting information related to Japan's national security ("Obligations") based on agreements with foreign governments or foreign laws and regulations (entities subject to information collection and reporting obligations, "Obliged Entities"), and (b) organizations "controlled" by the Obliged Entities 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 the appointment of 1/3 or more of the board members.

The second category is Quasi-Specified Foreign Investors, who are (a) investors whose substantive decision-making is controlled by the Obliged Entities, (b) investors whose substantive headquarters are located in foreign countries/regions other than the countries/regions of incorporation, and their activities are affected by laws and regulations of such foreign countries/regions imposing the Obligations, and (c) investors with the Obligations based on agreements with the Specified Foreign Investors. Quasi-Specified Foreign Investors cannot use the exemption for investment to the newly introduced "Designated Core Business Entities" (defined below) (meaning a prior notification for investment to these entities is mandatory). Further, if a Quasi-Specified Foreign Investor intends to acquire 1% or more but less than 10% of the shares or voting rights in a listed Japanese company whose business falls within the Core Business Sectors (excluding the Designated Core Business Entities), such investor may be exempted from the prior notification requirements, as long as it abides by, in addition to the above requirements under items (a) through (e) above, the following additional requirements: (f) such investor will not access non-public information about the investee company's technology relating to the Core Business Sectors (excluding information about board members and financial conditions of investee companies), and (g) regarding the business activities in the Core Business Sectors, the investor will not send employees to investee companies and/or recruit or solicit executives or employees thereof.

Please note that Designated Core Business Entities are the companies designated as the "Specified Essential Infrastructure Service Providers" under the Economic Security Promotion Act, which conduct business activities in the Core Business Sectors under the FEFTA. The above-mentioned list that the Ministry of Finance regularly publishes indicates the Designated Core Business Entities.

Further, for certain types of investments, including when a foreign investor makes an investment in a Japanese company whose business does not fall within the Designated Business Sectors, but the foreign investor acquires 10% or more of the shares or voting rights in such company, or when it is exempted from the prior

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notification requirements, then the foreign investor must submit an *ex post facto* investment report, within forty-five days after the investment, to the Minister of Finance and the Competent Minister for the Business through the Bank of Japan.

If a mandatory filing is not required, can a transaction be reviewed by a governmental authority and be blocked?

A governmental authority will not review and block a transaction that is not subject to a mandatory filing (prior notification).

If a transaction is outside of the home jurisdiction (e.g. a global transaction where shares of a foreign incorporated parent company are being bought by another foreign company, but the parent company that's been acquired has a subsidiary in your jurisdiction), could such a transaction trigger a mandatory FDI filing in your jurisdiction?

No. The FDI or specified acquisition covered under the FEFTA does not include the indirect acquisition of companies in Japan.

Can a governmental authority in such a transaction prohibit the indirect transfer of control of the subsidiary?

No.

20. What are typical exit transactions for foreign companies?

For foreign companies investing in Japanese companies, the most common type of exit transaction is the sale of shares. If a foreign company owns a local subsidiary, which is either a wholly-owned subsidiary or a joint venture company in Japan, and wishes to withdraw from its Japanese business, the foreign company may choose to dissolve and liquidate the local subsidiary or joint venture company, in addition to transferring the shares in the local company to a third party or joint venture partner.

When a foreign company holds a certain percentage of shares in a Japanese company, whether listed or unlisted, the exit transaction mainly involves the sale of such shares to a third party. In recent years, several global-based private equity funds have made a number of large-scale buyouts of Japanese companies. The typical exit transaction for such investments is through a trade sale (i.e., mainly, the sale of the shares to Japanese strategic buyers), but second buyouts (i.e., the sale of the shares to other private equity funds) have also been increasing these past years. IPOs are less common but please see Question 21 for more details.

21. Do private companies prefer to pursue an IPO? i. on a domestic stock market, or ii. on a foreign stock market? iii. If foreign, which one?

on a domestic stock market

The number of IPOs in Japan's domestic securities market has remained below 100 per year since 2008, when the financial crisis happened. This has been the case every year except for 2021 when the global financial easing and stock market rally had a positive impact. In 2022, the Tokyo Stock Exchange ("TSE") restructured its markets with the intent to make the domestic securities market more attractive overall, but the number of IPOs that year still remained at 91, less than half the number during the IT bubble (204 in 2000). The number of IPOs has been on a downward trend since then. By market, IPOs on the TSE Growth Market, which was created through the above-described market restructuring as a market primarily for startups, accounted for more than 80% of the total number of IPOs in 2022, and by industry, the information and communications industry and the service industry accounted for 35% and 33% of the total IPOs, respectively.

on a foreign stock market?

In the past, there were cases where large Japanese companies listed on the Japanese domestic market would duplicate listings on the U.S. market to increase their international visibility. Sony was listed on the New York Stock Exchange in the 70s, followed by Toyota and others. Since then, however, fewer Japanese companies have made duplicate listings in the U.S. as it has become easier for foreign investors to trade stocks in the Japanese securities market. In recent years, an increasing number of Japanese startups have been seeking to list on the NASDAQ from the outset, instead of listing on the Japanese domestic market first, in order to grab larger growth capital.

If foreign, which one?

As mentioned, the NASDAQ is the most popular foreign stock market for Japanese companies at present, although some companies are listed on the Hong Kong Exchanges and Clearing ("HKEx"). Fast Retailing (i.e., UNIQLO) was listed on the HKEx in 2014 to increase recognition in Greater China and Southeast Asia.

22. Do M&A/Investment/JV agreements typically provide for dispute resolution in domestic courts

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or through international arbitration?

For domestic parties in Japan, dispute resolution in domestic courts is the most common legal dispute resolution method provided for in M&A/Investment/JV agreements, rather than arbitration. As mentioned in Question 24, Japanese courts are generally regarded as reliable and cost-efficient dispute resolution bodies.

On the other hand, in M&A/Investment/JV agreements where a foreign party is involved, international arbitration is more frequently provided as a dispute resolution method. The main reasons for this are as follows:

(a) Arbitration awards are easier to enforce in a jurisdiction where the foreign party or its assets are located due to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards ("New York Convention"), to which Japan is a party. As mentioned in Question 26, international arbitral awards rendered in the territory of another Contracting State will be recognized and enforced in Japan and, conversely, arbitral awards rendered in Japan will be recognized and enforced in the Contracting States. As for the enforcement of a foreign judicial judgement in Japan or the enforcement of a Japanese judicial judgment in foreign countries, it is generally said that this is more difficult compared to the enforcement of international arbitration awards.

(b) Parties may appoint the arbitrators taking into account their professional backgrounds and personalities.

(c) Parties may agree on the language to be used in the arbitration proceedings, which is advantageous to a foreign party who does not use Japanese. In contrast, Japanese language must be used in court proceedings in Japan and thus all documents must be written in Japanese and any evidence written in a foreign language must be translated into Japanese.

(d) Arbitration proceedings are basically kept confidential. On the other hand, in court proceedings in Japan, the dates for the oral arguments and the rendition of judgement are open to the public and basically anyone may inspect the case records maintained in the courts.

23. How long does a typical contract dispute case take in domestic courts for a final resolution?

A typical contract dispute case in domestic courts usually takes about a little more than a year until final resolution. If appealed, it would take approximately six additional months.

According to data recently released by the Supreme Court of Japan, in 2024, the average length of proceedings for civil cases heard at district courts (courts of first instance), where both parties attended and judgements were rendered, is 13.4 months, and the average length of proceedings for civil cases where settlements were reached is 12.9 months. Also, the average length of proceedings for civil cases that were appealed to the high courts is 6.4 months (including those that resulted in settlement and that were withdrawn), while those where judgements were rendered is 6.8 months.

As a side note, the percentage of civil cases appealed to the high courts from all civil cases that were heard and concluded with judgements at district courts is about 16.7%.

24. Are domestic courts reliable in enforcing foreign investors rights under agreements and under the law?

Yes. Japanese domestic courts are generally regarded as reliable and economical dispute resolution bodies. Judges in domestic courts are fair in adjudicating foreign investors' rights under agreements and under the law. The World Justice Project's 2025 Rule of Law Index ranked Japan as the 15th least corrupt country out of 143 countries where government officials in the judicial branch do not use public office for private gain.

25. Are there instances of abuse of foreign investors? How are cases of investor abuse handled?

No. To our best knowledge, there has been no instance of abuse of foreign investors by local businesses with the help of governmental agencies, nor by courts trying to take advantage of foreign investors.

26. Are international arbitral awards recognized and enforced in your country?

Yes. Japan is a party to the New York Convention, which basically requires Contracting States to recognize and enforce arbitration awards made in other countries. Since Japan made a reservation that it will apply the New York Convention in the recognition and enforcement of awards made in the territory of another Contracting State, international arbitral awards made in the territory of other Contracting States will be recognized and enforced in

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Japan.

To enforce an international arbitral award in Japan, a party must file a petition for the enforcement decision of an arbitral award with a Japanese domestic court, as explained below. Approximately two or three cases involving a petition for the enforcement decision of an arbitral award are filed with the Tokyo District Court every year. From 2004 through 2016, approximately 70% of such cases were recognized by the court, with one case being dismissed, and the rest of the cases withdrawn by the parties. Since more than half of the arbitration related cases in Japan have been handled by the Tokyo District Court, and although we do not have any data regarding enforcement decisions of arbitral awards handled by other courts in the country, it can be said that Japanese courts in general have taken a positive stance toward the enforcement of international arbitral awards.

The outline of the procedure for enforcing international arbitral awards in Japan is as follows:

(a) Enforcement Decision

A party must file a petition with the court for an enforcement decision (meaning, a decision allowing the civil execution based on an international arbitral award). The court will then be required to issue an enforcement decision, except where it finds any of the grounds for refusal set forth in the Arbitration Act. The standards for review, grounds for recognition and enforcement under the Arbitration Act are substantially the same as those set forth in the UNCITRAL Model Law.

(b) Compulsory Execution

An arbitral award with an enforcement decision has the same effect as a final and binding judicial judgment. Compulsory execution may be carried out based on such arbitration award upon petition by a party.

As a side note, interim measures ordered by an arbitral tribunal have also become enforceable in Japan due to recent revisions to the Arbitration Act in 2023.

27. Are there foreign investment protection treaties in place between your country and major other countries?

Yes. As of December 2025, Japan has signed 57 investment treaties and economic partnership agreements that contain a chapter on investment and 54 of these have already entered into force, except for those that have been terminated. Also, there is a private investment arrangement between Japan and Taiwan. Such treaties, agreements, and arrangement cover 82 countries/areas so far.

In general, such treaties and agreements provide for national treatment, most-favored-nation treatment, fair and equitable treatment and full protection and security, observance of obligation (umbrella clause), expropriation conditions, prohibition of performance requirements, freedom of money transfer, and dispute settlement mechanism including investor-state dispute settlement (ISDS).

Further, Japan is a party to the Energy Charter Treaty, which provides for similar terms as the ones in the general bilateral investment treaties on the protection of investments in the energy sector.

Contributors

Norihiro Sekiguchi
Partner
norihiro.sekiguchi@ohebashi.com

Takashi Koyama
Counsel
takashi.koyama@ohebashi.com

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