Japan Expands Investment Screening Regime, Forms CFIUS-Like Investment Screening Panel

July 17, 2026

On June 5, 2026, Japan promulgated Act No. 30, amending the Foreign Exchange and Foreign Trade Act ("FEFTA"), Japan's principal foreign investment review statute. Certain provisions, including those establishing a new interagency consultation process, took effect immediately, while most other amendments will take effect on a date to be specified by Cabinet Order within one year.

The amendments advance Prime Minister Sanae Takaichi's stated objective of developing a "Japan version" of the Committee on Foreign Investment in the United States ("CFIUS") and were quickly followed by the formation of a cross-ministerial investment screening body, the Japan Foreign Investment Commission ("JFIC") on June 29, 2026. The amendments materially strengthen FEFTA by expanding review to certain indirect acquisitions, formalizing interagency consultation, creating new post-closing intervention powers, strengthening anti-circumvention rules and codifying risk mitigation procedures.

The amendments and formation of JFIC are part of a larger administrative and legislative agenda aimed at bolstering Japan's defense and national security policies—including the enactment of a law establishing a national intelligence bureau on May 27, 2026. Taken together with the formation of JFIC and the strengthening of Japan's intelligence capabilities, the amendments may support Japan's case for designation by CFIUS as an "excepted foreign state." CFIUS is authorized to make this designation where it has determined "that a foreign state has established and is effectively utilizing a robust process to analyze foreign investments for national security risks and to facilitate coordination with the United States on matters related to investment security." The designation is relevant as investors from an "excepted foreign state" can qualify for exemptions from CFIUS mandatory filing requirements and jurisdiction with respect to noncontrolling investments and real estate transactions. To date, only those countries that comprise the Five Eyes intelligence sharing alliance—Australia, Canada, New Zealand and the United Kingdom—have been designated as "excepted foreign states." However, a strengthened FEFTA regime, alongside the formation of JFIC and other reforms, could be relevant to a future assessment by CFIUS of whether Japan's foreign investment review framework meets the "excepted foreign state" criteria.

BACKGROUND

FEFTA is administered by the Ministry of Finance ("MOF") together with the ministry responsible for the target company's business sector. The regime generally requires foreign investors to submit a prior notification before making certain investments in Japanese companies engaged in business sectors designated as sensitive from the perspective of national security, public order, public safety or economic security. Other transactions may be subject to post-closing reporting requirements.

Japan has expanded FEFTA in recent years by broadening the scope of sensitive sectors and lowering certain prior-notification thresholds. Notably, FEFTA reforms effective in 2020 reduced the prior-notification threshold for certain investments in listed Japanese companies from the acquisition of 10% to 1% of total issued shares or voting rights, subject to exemptions. The 2026 amendments further strengthen the regime by expanding the categories of transactions and investor conduct subject to review.

KEY CHANGES UNDER THE 2026 FEFTA AMENDMENT

Formalized Interagency Consultation. Formal review authority remains with the Ministry of Finance ("MOF") and the minister supervising the industry relevant to the investment. However, the amendments now require consultation with the Prime Minister, the Minister for Foreign Affairs and other relevant authorities when MOF and the applicable minister determine that such consultation is necessary to assess national security or similar concerns. This new consultation requirement brings FEFTA closer to the interagency review model used by CFIUS.

Expanded Post-Closing Review Authority. The amendments give authorities new post-closing powers for certain inward investments that were not subject to prior notification. These powers include the ability to require reports, issue recommendations or orders, and impose emergency measures. These post-closing report requests may be made for up to five years after the relevant transaction. They will apply to investments that future Cabinet Orders designate as likely to raise national security concerns due to changes in international circumstances or other developments. The amendments otherwise preserve FEFTA's existing prior notification requirements, which continue to depend on the type of transaction, the relevant business sector as designated by Cabinet Orders, and the amount of share or equity ownership or other rights acquired or exercised by the foreign investor.

Expanded Coverage of Indirect Acquisitions. The 2026 amendments expand FEFTA's reach to certain indirect acquisitions. As a result, FEFTA may now apply to some foreign-to-foreign transactions involving Japanese downstream holdings, including listed companies.

Historically, FEFTA review has been limited to direct participation in covered transactions, with jurisdiction dependent on the nature of the target business, the foreign investor and the type of transaction. The 2026 amendments generally retain this framework, but expand FEFTA jurisdiction to include certain indirect participation in covered transactions.

For listed Japanese companies, the threshold at which a foreign entity's Japanese holdings trigger the FEFTA regime will be established by Cabinet Order, but cannot be set below 1% of issued shares or total voting rights. For non-listed companies, any ownership interest in a Japanese company is sufficient for the foreign entity to qualify as a direct-holding entity.

By comparison, CFIUS has broad jurisdiction over transactions involving the direct or indirect acquisition of foreign control of any type of U.S. business, as well as certain rights in the context of non-controlling investments in certain sensitive U.S. businesses. The FEFTA amendments move Japan closer to that model, but FEFTA remains more dependent on the nature of the target business, the foreign investor and the type of transaction.

Anti-Circumvention Provisions. The amendments also strengthen rules designed to prevent investors from avoiding FEFTA review through indirect or nominee structures. These rules now extend to domestic Japanese investors and other persons acting on behalf of non-resident investors, targeting arrangements that may obscure the true foreign interest behind a transaction.

Prior Notification and Mitigation Flexibility. FEFTA continues to rely principally on mandatory prior notification requirements. However, the amendments also introduce post-closing review authority for certain investments that previously were subject only to post-closing reporting requirements. For covered transactions that require mandatory prior notification, filings generally trigger a 30-day waiting period. During that period, the investment may not be completed pending review and is subject to extension.

The amendments also provide greater flexibility in the review process. Parties may revise proposed national security mitigation measures during the waiting period without withdrawing and resubmitting the underlying notification and restarting the review period. Changes to mitigation measures after clearance require advance notice and renewed review.

Implications for Foreign Investors. The amendments are likely to have the greatest impact on transactions involving Japanese subsidiaries, portfolio companies, or other downstream holdings.

In particular, the new indirect acquisition provisions may bring certain foreign-to-foreign transactions within FEFTA's scope even where the immediate target is located outside Japan. Investors should therefore assess potential FEFTA filing requirements early in the transaction process and consider the implications for due diligence, transaction structuring, regulatory timing, and potential mitigation commitments.

Additional details regarding jurisdictional thresholds, filing requirements, and review procedures are expected through forthcoming Cabinet Orders and administrative guidance.

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Please do not hesitate to contact us with any questions.

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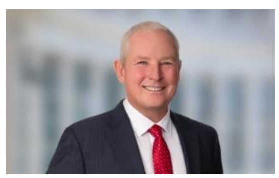

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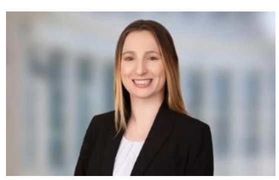

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