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Major Overhaul of the FEFTA: Introducing a Japanese Version of CFIUS and Strengthening the Comprehensive FDI Regulatory Framework

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1. Introduction

Advanced technologies and equipment—such as AI, semiconductors, and cybersecurity—have become core pillars of Japan’s economic security. At a time when global powers are escalating their intense competition for strategic resources and grappling with the challenge of addressing so-called “brain drain” pressures, Prime Minister Sanae Takaichi has demonstrated a strong commitment to strengthening Japan’s economic resilience. Among her various policy initiatives, she has advocated the reform of Japan’s investment screening framework.

On March 17, 2026, the Cabinet submitted a bill to the Diet to amend the Foreign Exchange and Foreign Trade Act (FEFTA), including provisions for introducing a U.S. CFIUS-like committee, which would enable the Japanese government to better leverage its collective expertise, along with other restrictions that will direct foreign investors to file prior notifications. This allows the investment screening authority to identify investments that could potentially pose a threat to national security.

In this newsletter, we would like to provide an outline of the Japanese version of CFIUS as well as

certain prospective regulations based on the submitted bill described above, and of a proposal by the Subcommittee on Foreign Exchange and Foreign Trade, an advisory board to the Minister of Finance of Japan, which was convened to review the inbound direct investment screening system and was tasked with the preparation of the bill for submission.

2. Proposed Reforms to the Current System

The Subcommittee’s proposal pointed out the following six primary issues as requiring resolution:

I. Increase in the Number of Prior Notifications

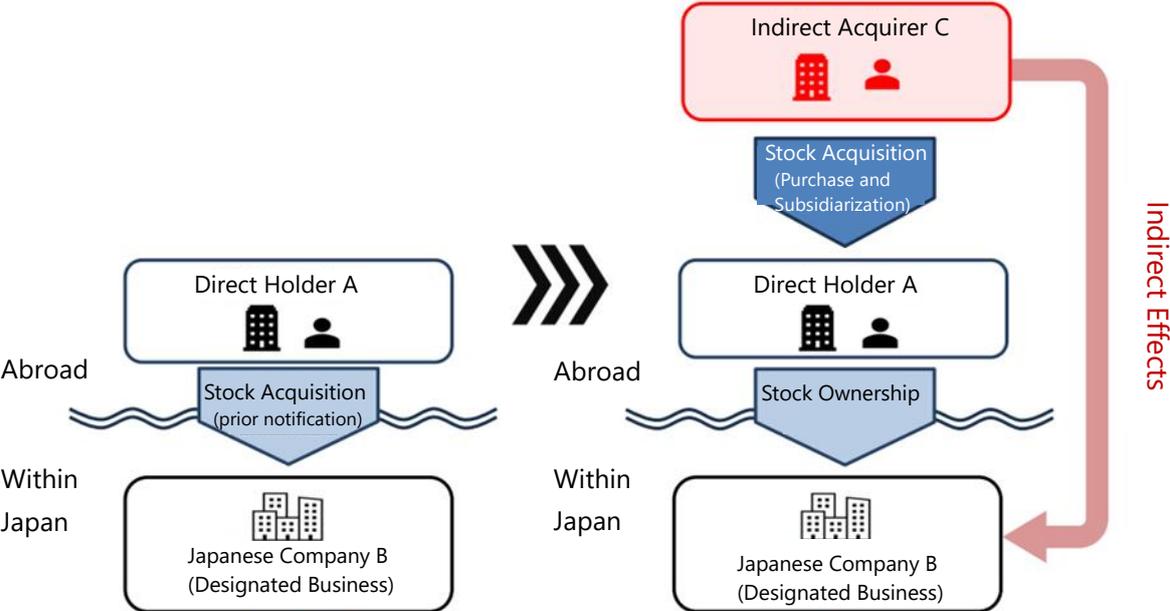
Due to a major revision of the FEFTA in 2019, the number of prior notifications has increased approximately five times higher than in FY 2018, before the revision (2,903 in FY 2024), creating a significant administrative burden for both investors and the authority.

II. Unclear Positioning of Risk Mitigation Measures

The relevant ministries have, as a practical operational measure, requested that investors comply with the stipulated requirements in the prior notification form as a condition for clearance. However, imposing obligations on investors without an explicit statutory basis raises significant due-process concerns.

III. Insufficient Regulation of Indirect Investments

The current system in Japan regulates only cross-border transactions. Consequently, unlike the United States and the United Kingdom, which also regulate indirect investments occurring outside their jurisdictions, Japan’s system does not adequately address situations in which an ultimate shareholder changes without any transfer of shares in the Japanese company itself.



Source: “Regarding the Inbound Direct Investment Screening System”

IV. Existence of Particularly High-Risk Investors

Under current law and practice, only investors abroad are subject to the FEFTA's regulations and domestic investors are, in general, outside of its regulatory scope except for some limited circumstances (such as subsidiaries of foreign corporations in Japan²). However, even some domestic investors falling outside this scope may pose national security concerns.

V. Risks to National Security from Investments in Non-Designated Businesses

Currently, regarding the acquisition of shares in businesses operating in non-designated businesses, only post-acquisition reporting is required when the acquisition ratio of shares or voting rights reaches 10% or more. However, even investments in non-designated businesses by particularly high-risk investors carry a certain degree of risk that could materialize into threats to national security.

VI. Need to Strengthen Enforcement Mechanisms

Japan faces continuing challenges in post-transaction interventions such as monitoring and enforcement. Since the only and last order for the discontinuance of outward direct investment in 2008, no publicly disclosed enforcement cases, including corrective orders³ introduced by the 2017 amendment, have been implemented.

3. Future Policies and Countermeasures

The bill implements countermeasures regarding five out of the six issues mentioned above. Regarding "I. Increase in the Number of Prior Notifications", details are expected to be set out not in the FEFTA itself but in subordinate regulations. The countermeasures are likely to include measures such as relaxing requirements for "exempting prior-notification of director reappointments from prior notification, which has caused significant burdens for multinationals where no material change is involved," and "narrowing the scope of ICT-related industries to those deemed necessary from a cybersecurity standpoint". However, the latter approach in particular faces challenges in defining the scope, requiring clarification of criteria such as business scale and the sensitivity of information. Meanwhile, attention should also be paid to the proposal's suggestion of possibly adding "domestic companies possessing critical technologies or information" to the designated businesses. Coordination hurdles exist, including ensuring consistency with other laws and regulations concerning economic security.

Regarding "II. Unclear Positioning of Risk Mitigation Measures", the following measures are either

¹ See note 1 above

² Article 26, Paragraph 1, Items 3 through 5 of the FEFTA. See also Article 27, Paragraph 14 of the FEFTA.

³ Article 29 of the FEFTA

set out in the bill or likely to be stated under subordinate legislation: adding risk mitigation measures to the required disclosures in notification forms (limited to cases involving risks to national security, etc.); introducing notifications for adding or modifying risk mitigation measures during the review process; establishing provisions making risk mitigation measures subject to recommendations or orders; and introducing a notification system for ex post facto changes.

Regarding “III. Insufficient Regulation of Indirect Investments”, the bill adopts an approach to regulate (i) Indirect acquirers newly acquiring voting rights that would result in them holding 50% of the voting rights of direct holders possessing shares and voting rights of Japanese companies, and (ii) actions by affiliates of indirect acquirers that would result in their holding a majority of the directors of direct holders.

Regarding “IV. Existence of Particularly High-Risk Investors”, the amendment will treat Japanese corporations and residents as foreign investors when they are effectively acting as such in relation to foreign investors⁴ in their investment activities. For those newly deemed foreign investors, requiring prior-notification is also being considered in cases where they are under the control or influence of high-risk investors. Moreover, there is discussion about whether additional requirements should be imposed on foreign financial institutions and general investors who are currently permitted to utilize the pre-notification exemption system to a certain extent.

Regarding “V. Risks to National Security from Investment in Non-Designated Businesses”, under certain restrictions⁵, the bill aims to establish a system that would allow for reporting requirements, recommendations, or orders to be issued when risks to national security materialize in relation to investments in non-designated businesses.

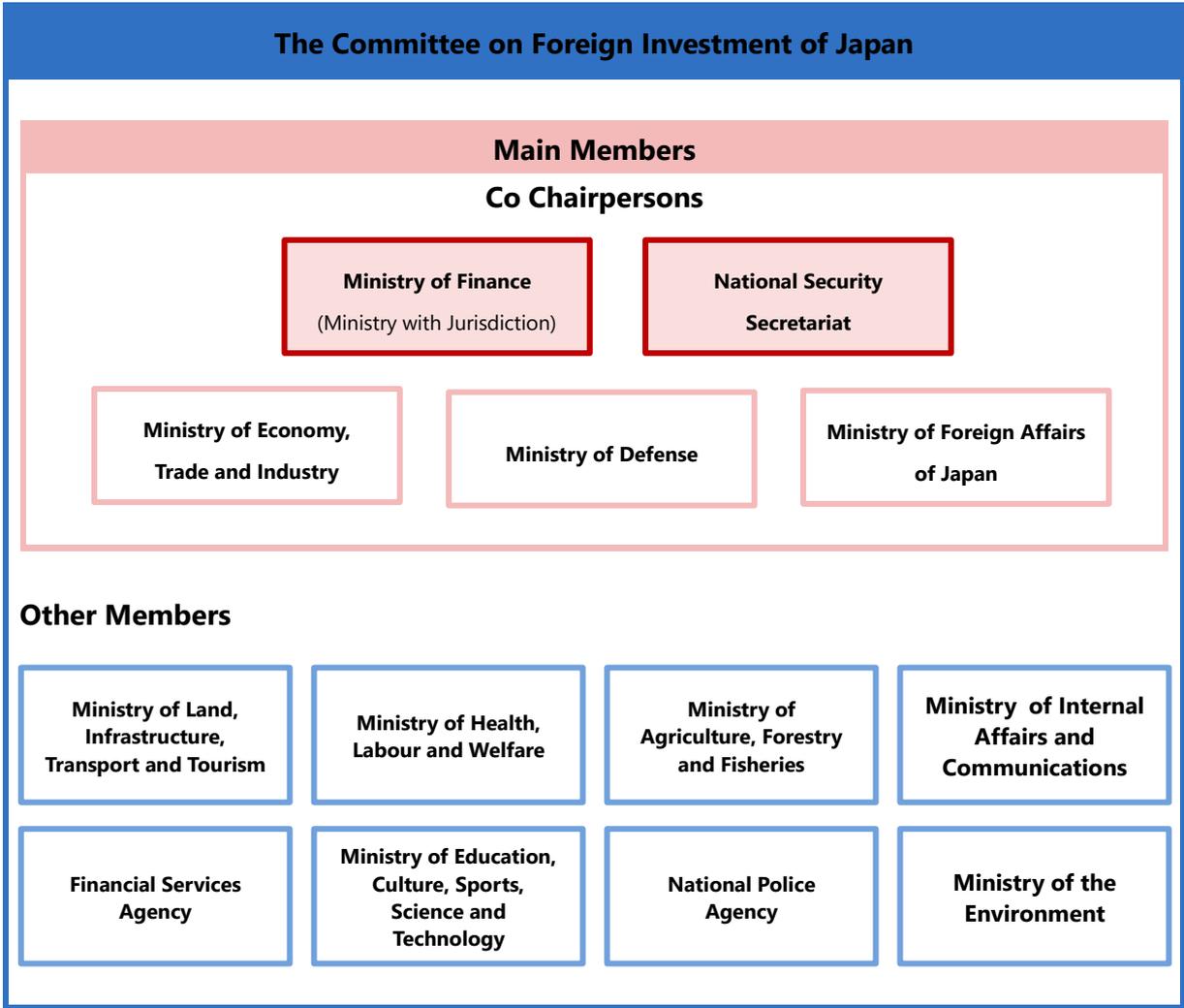
On the other hand, the item “VI. Need to Strengthen Enforcement Mechanisms” relates to all of the “III. Insufficient Regulation of Indirect Investments,” “IV. Existence of Particularly High-Risk Investors” and “V. Risks to National Security from Investment in Non-Designated Businesses”. In Japan, the sheer volume of pre-approval reviews requires the investment of significant time and energy, and there are doubts as to whether current monitoring, enforcement, and other legal implementation measures are sufficient. By fiscal year 2028, authorities plan to introduce a new electronic system for submitting prior-notifications and post-reports, aiming to enhance post-activity monitoring and analytical capabilities.

⁴ Specifically, when: (i) there are instructions regarding investments based on contracts with foreign investors; (ii) a person with a special relationship to a foreign investor receives instructions from that foreign investor regarding the investment; (iii) a person having a special relationship with a foreign investor intends to transfer a designated business or provide technology to that foreign investor.

⁵ Namely, limiting the scope of reporting requirements specifically to cases where high-risk investors acquire 10% or more of shares or voting rights. Note that the bill establishes a five-year retroactive period.

4. CFIUS-like Investment Screening Committee

Prime Minister Sanae Takaichi has advocated as part of her election platform the establishment of a Japanese analogue to the Committee on Foreign Investment in the United States (CFIUS). A new review and enforcement body will be established, and it will be crucial to closely monitor whether its institutional design and operation can function effectively, encompassing not only the power of review but also of monitoring and enforcement. The Liberal Democratic Party, the dominant ruling party, has announced that its plan is for the Ministry of Finance and the National Security Secretariat (NSS) to serve as co-chairs, with participation from security agencies and other relevant ministries and agencies⁶.



Source: “Bill to Amend FEFTA to Be Submitted to Diet Japanese Version of CFIUS to Be Established to Regulate Foreign Investment” (The Liberal Democratic Party, March 13, 2026)⁷
 *English translation notes added by AMT

⁶ <https://www.jimin.jp/news/information/212740.html> (in Japanese)

⁷ See note 6 above

5. Conclusion

Since taking office, Prime Minister Takaishi's administration has announced priority public-private investments in 17 strategic sectors, including AI, semiconductors, and cybersecurity. According to reports, the current administration is expected to designate six fields as "national strategic technologies, namely, (i) AI and Advanced Robots, (ii) Quantum, (iii) Semiconductors and Communications, (iv) Bio and Healthcare, (v) Nuclear Fusion, and (vi) Space". These fields are considered highly important for economic security and are expected to experience growth in levels of technological innovation in the 2030s and beyond. For these six fields, not only investment promotion but also focused support through tax and research budget allocations is planned. Further developments in Japan's investment screening regime are expected, and continued close monitoring will be essential.

The bill was submitted to the Diet on March 17, 2026. After the Diet passes the bill sometime during the period running from April through to June, the bill will come into effect within one year from the date of its promulgation. That is to say, the new FEFTA will be enforced in 2027.

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