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Japan: Law and Practice

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Chuo Sogo LPC

JAPAN



Law and Practice

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1. Business Entities

1.1 Business Organisations

Business Entities

The main business entities used in Japan are, first, companies as a juridical person:

- stock companies;
- limited liability companies;
- general partnerships; and
- limited partnerships.

Of these, stock companies and limited liability companies are the most common.

In addition to raising funds through shares and stock options, a stock company can differentiate the rights attached to its shares by issuing different classes of shares. It is therefore highly compatible with IPOs and venture capital (VC)/private equity (PE) investment and is the preferred vehicle for businesses that anticipate outside investors. A general partnership is characterised by the limited liability of all its members and the ability to design its governance flexibly without a board of directors or similar bodies; it is widely used for Japanese subsidiaries of foreign companies, joint ventures and special purpose vehicles (SPVs).

Second, there are partnerships without separate legal personality: the limited liability partnership (LLP) and the investment limited partnership (LPS). An LLP is characterised by pass-through taxation and flexible governance, making it suitable for joint research and joint ventures among professionals. An LPS consists of general partners with unlimited liability and limited partners, whose liability is limited. LPSs are used mainly for PE and VC funds.

In addition, although not used as business entities as such, trusts are often used for asset securitisation and asset management.

Factors of Structure

The choice of business entity in Japan therefore involves weighing factors such as:

- whether liability is limited or unlimited;
- whether entity-level or pass-through taxation;
- plans for external fundraising or an IPO;
- degree of flexibility of governance;
- tax classification on the investor side;
- capital and organisational requirements under sector-specific regulation; and
- for foreign investors, notification requirements under the Foreign Exchange and Foreign Trade Act.

1.2 Incorporation and Ongoing Compliance

Incorporation Procedure

For a stock company, the incorporation procedure is broadly as follows:

- preparation of the articles of incorporation (Companies Act (CA), Article 26 (1));
- payment of capital contributions (Article 34 (1));
- appointment of directors and other officers (Articles 38 and 47); and
- registration of incorporation (Article 49).

For a stock company, the costs of incorporating include:

- a notarial fee of JPY30,000 to 50,000 for certifying the articles of incorporation, depending on the amount of capital (JPY15,000 for small companies with no more than three incorporators);
- registration and licence tax of 0.7% of the capital (minimum JPY150,000); and
- stamp duty of JPY40,000 on the articles (not required for electronic articles).

There is no minimum capital requirement, so a company may be incorporated with capital of as little as JPY1.

Incorporation generally takes two to three weeks, provided that the necessary documents, seal certificates and so on are in place.

Ongoing Obligations

Ongoing obligations include:

- maintenance of a shareholder register (CA, Article 121);
- financial statements for each business year (Article 435 (2));
- public notice of the balance sheet after the annual general meeting (Article 440 (1));
- registration of changed registered matters such as officers, head office or trade name (Article 915 (1));
- filing tax returns; and
- completing social insurance procedures.

Failure to maintain the shareholder register, make required corporation registrations, publish the balance sheet and so on may render officers liable to a non-penal fine of up to JPY1 million (Article 976).

1.3 Share Issuances

Share Issuances

Japan has abolished par value shares, and all shares are now no-par shares. The equivalent of "authorised capital" is the total number of authorised shares set out in the articles of incorporation. In a public company, it cannot exceed four times the number of issued shares (Companies Act (CA), Article 37 (1) and (3)).

The company determines the number of shares, the amount to be paid and the payment date for shares. The issuance is approved by special resolution of the shareholders' meeting in a non-public company (Articles 199 (2) and 309 (2)(v)) or by board resolution in a public company (Article 201 (1)).

However, even in a public company, an issuance of shares at a "particularly favourable price" requires the directors to explain the reasons and obtain a special shareholders' resolution (Article 199 (3)). For listed companies, the Japan Securities Dealers Association generally requires a price of at least 90% of the share price on the day before the board resolution. In unlisted companies, directors' discretion is respected where the price is calculated by a reasonable method (Supreme Court, 19 February 2015), commonly the discounted cash flow (DCF) method.

Shareholders may seek an injunction against an issuance if the issuance violates applicable laws or the articles or uses a grossly unfair method (Article 210). Under the "primary purpose" test, unfairness depends on whether the primary purpose is to raise capital or to maintain control (Tokyo High Court, 4 August 2004).

Class of Shares

Classes of shares may be issued with rights differentiated in respect of nine statutory matters, which may be freely combined (CA, Article 108 (1)). VC investments, for example, use preferred shares with preferential dividends, liquidation preferences, conversion and call provisions and veto rights, although the actual investment terms are often set out in a shareholders' agreement instead.

Certain acts that may prejudice a class of shareholders require a resolution of a meeting of that class of shareholders (Article 322 (1)).

1.4 Distributions and Return of Capital

Dividends

Dividends are, in principle, declared by resolution of the shareholders' meeting (Companies Act (CA), Article 454 (1)). If the articles so provide, an interim dividend may be paid by board resolution (Article 454 (5)).

The total book value of assets distributed may not exceed the "distributable amount" on the effective date of distribution (Articles 461). This amount is calculated on the basis of the surplus shown in the balance sheet. Unlike some common law countries, Japan does not apply a "solvency test" to dividend distributions.

Where a dividend breaches this restriction, the recipient shareholders and the responsible directors are jointly liable to return it, and release from this liability is strictly limited (Articles 462); if a deficit arises at the year end, the responsible directors must make it good (Articles 465 (1)).

Acquisition of Own Shares

Acquisitions of a company's own shares for consideration also, in principle, require a shareholders' resolution (CA, Article 156 (1)) and are subject to the distributable amount restriction (Article 461). An acquisition from a specific shareholder requires a special resolution and entitles other shareholders to request to be added as sellers (Article 160). Treasury shares may be cancelled by board resolution (Article 178).

Unlike UK law, Japanese law has no provision directly prohibiting financial assistance for the acquisition of shares. Raising capital by a target company in a leveraged buyout (LBO) is therefore not unlawful per se, but it is constrained by the following:

- prohibition on subsidiaries acquiring parent company shares (Article 135 (1));
- prohibition on conferring benefits in connection with the exercise of shareholder rights (Article 120 (1));
- directors' duty of care (Article 330; Civil Code, Article 644); and
- offence of aggravated breach of trust (CA, Article 960).

1.5 Control Person Reporting

Japan has no regime for the public disclosure of a company's beneficial owners, such as the UK's PSC register. The commercial register records the representative directors and other officers, but not shareholders or beneficial owners, and only shareholders and creditors have the right to inspect the shareholder register. That said, beneficial ownership information can be obtained to some extent through individual regimes.

First, "specified business operators" such as financial institutions must verify the identity of the beneficial owners of corporate customers (such as persons directly or indirectly holding more than 25% of the total voting rights) (Act on Prevention of Transfer of Criminal Proceeds, Article 4 (1)(iv)). In practice, this is the most effective means of obtaining beneficial ownership information.

Secondly, for stock companies, a beneficial owner list system was introduced in 2022. The company prepares a list of its beneficial owners and submits it to the registrar, who checks and retains it and issues certified copies. However, use of this system is entirely voluntary.

Other relevant regimes include prior notification and post-investment reporting obligations for foreign investors (see **8.2 Foreign Investment Restrictions and Sector-Specific Rules**), and the major shareholder rules and the large shareholding reporting regime for listed companies (see **5.4 Shareholder Disclosure**).

Finally, the interim draft proposals compiled in March 2026 include a "beneficial shareholder identification system", which would make it easier to identify persons holding de facto voting rights behind the shareholders of record.

2. Corporate Governance

2.1 Legal Framework

Corporate governance in Japan is regulated by a combination of laws and regulations, including:

- the Companies Act and the Financial Instruments and Exchange Act;
- stock exchange listing rules; and
- the Corporate Governance Code (the "Code"), most recently revised on 21 July 2026.

The Companies Act prescribes the basic governance structure of stock companies, directors' duties,

internal controls and other matters. Under the stock exchange rules, listed companies are required either to implement the principles of the Code, or, where they do not implement them, to explain the reasons under a "comply or explain" approach. Although the Code itself is not a law or regulation, it functions as an important set of standards for listed companies.

2.2 Directors' Duties and Liabilities

The relationship between a director and the company is one of mandate, and the director owes the company a duty of due care as a prudent manager. Article 355 of the Companies Act requires directors to comply with laws and regulations, the articles of incorporation and resolutions of shareholders' meetings, and to perform their duties faithfully for the stock company (the "duty of loyalty").

Judicial precedent has indicated that directors' duties of due care as a prudent manager and duties of loyalty include duties to establish risk management and internal control systems and to monitor their effective operation, as well as duties to direct and supervise employees so as to detect and prevent unlawful or improper conduct.

The specific standard of care is determined by taking into account such factors as the size of the company and the nature of its business.

Where a director neglects their duties and causes loss to the company, the director is liable to the company for damages under Article 423 (1) of the Companies Act. In relation to conflict-of-interest transactions and similar matters, that Article contains provisions under which the amount of loss or a breach of duty is presumed.

2.3 Board Composition and Independence

Under the Companies Act, an outside director must not be an executive director or similar officer of the company or its subsidiary, must not have held such a position during a prescribed period, and must satisfy prescribed requirements concerning relationships with the parent company and similar entities, family relationships and other matters. In addition, certain companies with a board of company auditors that are required to file annual securities reports must appoint at least one outside director.

Under the Corporate Governance Code, a company listed on the Prime Market should appoint independent outside directors with sufficient qualifications comprising at least one third of the board (for companies listed on other markets, at least two independent outside directors). A Prime Market-listed company that considers it necessary, taking comprehensive account of its industry, size, business characteristics, governance structure, the environment surrounding the company and other factors, to appoint a majority of independent outside directors (or, for a company listed on another market, at least one third of the board) should appoint a sufficient number of independent outside directors.

In addition, the board of directors should be composed so as to achieve both an appropriate size and diversity, including in terms of gender, international experience, career background, age and cultural background, while collectively possessing a well-balanced mix of the knowledge, experience and capabilities necessary to perform its roles and responsibilities effectively.

2.4 ESG and Disclosure Obligations

Japan does not have a single law that imposes comprehensive ESG obligations on corporations generally. Rather, ESG matters are regulated through a combination of disclosure requirements under the following:

- the Financial Instruments and Exchange Act;
- environmental and labour-related laws and regulations;
- the Corporate Governance Code; and
- other relevant rules.

Companies required to file annual securities reports must disclose governance, risk management and other matters under the section titled "Approach and Initiatives Regarding Sustainability", and must also disclose material climate-related information. In addition, among companies listed on the Prime Market, those with a market capitalisation above certain thresholds will, in phases from the fiscal year ending March 2027 onwards, be required to disclose sustain-

ability and climate-related information in accordance with the SSBJ Standards, which are uniform rules for corporate ESG disclosure developed by the Sustainability Standards Board of Japan (SSBJ).

However, there is no general statutory duty requiring directors to independently prioritise environmental, social or stakeholder interests. Nonetheless, under the Corporate Governance Code, listed companies are expected to appropriately co-operate with stakeholders, including employees, customers, business partners and local communities, from the perspective of sustainable growth and the enhancement of corporate value over the medium to long term.

Boards of directors are expected to do the following:

- identify ESG-related risks and opportunities that are material to their companies;
- integrate the risks and opportunities into management strategy and risk management;
- establish appropriate responsibility structures, targets and KPIs; and
- regularly monitor progress.

2.5 Conflicts of Interest and Related-Party Transactions

Where a director engages in a transaction that falls within the scope of business carried on by the company, enters into a transaction with the company for the director's own account or for the account of a third party, or enters into a transaction in which the interests of the company and the director conflict, the director must disclose the material facts at a shareholders' meeting – or for companies with a board of directors, a board of directors' meeting – and obtain approval of the respective meeting. Where the company suffers loss as a result of a conflict-of-interest transaction by a director, there are provisions under which the said director is presumed to have neglected their duties.

For transactions with related parties, the Ordinance on Company Accounting requires disclosure by way of notes of material matters concerning, among other things:

- relationship with the related party;
- nature of the transaction;
- amount of the transaction;
- transaction terms and the policy for determining those terms; and
- year-end balance.

Related parties include:

- parent companies;
- subsidiaries;
- affiliates;
- major shareholders; and
- officers and their close relatives.

3. Shareholder Rights and Agreements

3.1 Shareholder Rights

Shareholder Rights

Shareholder rights in a Japanese stock company (*kabushiki kaisha*) are set out in the Companies Act. A "public company" under the Act is a company that has at least one class of shares that may be transferred without the company's approval. Listed companies are public companies, but a public company is not necessarily listed. A "non-public company" is a company that requires the company's approval for the transfer of its shares. Listed companies are also subject to the Financial Instruments and Exchange Act (FIEA) and the Tokyo Stock Exchange (TSE) rules (see **5. Capital Markets**).

Shareholders participate in dividends and distributions of residual assets according to their share rights.

Voting and Fundamental Changes

Voting generally follows the principle of one vote per share or share unit. Directors are generally elected and removed by ordinary resolution, requiring a majority of the votes present at a meeting satisfying the applicable quorum. In a company with a board, shareholders decide matters reserved to them by legislation or the articles, rather than directing day-to-day management.

Fundamental changes generally require a special resolution:

- amendments to the articles;

- mergers, company splits, share exchanges and other statutory reorganisations;
- significant business transfers;
- share issuances on particularly favourable terms and share issuances by non-public companies;
- share consolidations;
- dissolution; and
- removal of a statutory auditor.

The standard requirement is at least two-thirds majority of the votes present, with a quorum of a majority of eligible voting rights; the articles may reduce the quorum to one third. Statutory exemptions can simplify reorganisation approvals (see **4.1 Legal Framework**).

Minority Rights and Information

In a company with a board, shareholders holding at least 1% of the voting rights or at least 300 votes may require proposals to be circulated to shareholders, usually by making this request eight weeks before the meeting. Holders of at least 3% of the voting rights may require a general meeting to be convened; in a public company these rights must have been held for six months continuously.

Every shareholder may inspect the shareholder register, the articles, the financial statements and the minutes of general meetings. Shareholders holding at least 3% of the voting rights or issued shares may inspect the accounting books by stating their reasons. However, the company may refuse on specified statutory grounds such as an improper purpose or a competing business.

Statutory Remedies

Shareholders may sue within three months of the date of a resolution to rescind a general meeting resolution for statutory defects, including serious procedural unfairness, and may seek injunctions against unlawful acts of directors and against unlawful or grossly unfair share issuances.

A shareholder who has held shares for at least six months in a public company may bring a derivative action against directors if the company fails to sue within 60 days of a demand; any recovery goes to the company. Directors may also be directly liable to shareholders and creditors for losses caused by bad faith or gross negligence in performing their duties.

Shareholders who dissent from a merger or other statutory reorganisation, and those being squeezed out, may seek fair-price protection through share purchase demands or judicial price determination, depending on the transaction.

Shareholders holding at least 10% of the voting rights or issued shares may seek judicial dissolution in exceptional cases, such as extreme operational difficulty causing irreparable harm or seriously improper management endangering the company's existence. Ordinary disagreement with the majority does not suffice.

3.2 Shareholder Agreements

Role and Typical Terms

Shareholder agreements are used in in the following:

- joint ventures;
- private equity and venture investments;
- family companies; and
- strategic minority investments in listed companies.

They supplement the articles of incorporation: detailed commercial arrangements are placed in the contract, while essential corporate rights, such as class rights and transfer-approval requirements, are reflected in the articles.

Typical terms cover:

- board nomination rights;
- reserved matters requiring the minority investor's consent;
- information rights beyond the statutory minimum;
- dividend policy;
- funding obligations;
- non-compete covenants; and
- exit mechanics.

Clear triggers, valuation methods and payment arrangements matter as much as the label attached to the right.

Restricting Share Transfers

Many unlisted companies provide in their articles that share transfers require the company's approval, normally by the board if there is one. A transfer made without approval is valid between the parties but cannot be asserted against the company. If approval is refused and the applicant requests the statutory purchase procedure, the company must buy the shares itself or designate a purchaser; the price is agreed or determined by the court.

Contractual provisions include lock-ups, rights of first refusal, tag-along rights allowing an investor to join a sale, and drag-along rights requiring other shareholders to join an agreed sale. They bind their parties, including the company if it joins the agreement, but do not automatically bind non-parties. The articles' approval regime and the contractual transfer procedures should be co-ordinated.

Enforceability

First, shareholder agreements are binding between the parties but cannot override mandatory corporate law. In particular, a put requiring the company to repurchase shares must comply with statutory distribution limits. Breach of the agreement does not by itself invalidate a corporate resolution, so key protections should be reflected in the articles where legally available.

Second, a nominee director owes duties to the company and cannot be required to vote in breach of them. Investor consent rights should therefore be structured as contractual shareholder rights, without dispensing with necessary corporate approvals.

Third, damages are available for breach, but timely court orders compelling a particular vote or share sale cannot be assumed. Parties may also consider statutory squeeze-out methods, including acquisition of an entire class of shares under an all-acquisition clause, where the required conditions can be met (see **4.1 Legal Framework**). Parties may choose foreign law to govern the agreement and arbitration for contractual disputes, but the validity of Japanese corporate acts is governed by Japanese law.

Resolving Shareholder Disputes

Japan has no general oppression or unfair prejudice remedy that allows a dissatisfied minority shareholder to force a buy-out. Investors therefore rely on the statutory tools described in **3.1 Shareholder Rights** and on negotiated contractual rights.

Appraisal proceedings protect the price in a reorganisation or squeeze-out. They do not give a minority shareholder a general right to initiate an exit. By contrast, a limited liability company (*godo kaisha*) or partnership has statutory withdrawal and repayment mechanisms, whose use depends on the legislation and the articles or partnership agreement.

Well-drafted agreements therefore provide their own internal structure: escalation to senior management, put and call options with a pre-agreed valuation method and deadlock buy-out mechanisms in 50:50 ventures.

Arbitration administered by the Japan Commercial Arbitration Association or an institution in Singapore or Hong Kong is used in cross-border ventures.

4. Mergers and Acquisitions

4.1 Legal Framework

Principal Laws

The Companies Act provides the transaction structure and the related approval, creditor protection and appraisal rules. The Civil Code governs acquisition contracts. The FIEA regulates listed-share acquisitions through tender offer rules, the 5% large shareholding reporting rules and insider trading regulation.

Since 1 May 2026, the principal mandatory tender offer threshold has been a statutory ownership ratio more than 30%, reduced from more than one third, and ordinary on-exchange purchases are covered. The calculation includes relevant specially related parties, and exemptions apply. Offers ordinarily run for 20 to 60 business days on equal terms. A bidder whose post-offer ratio reaches two thirds generally must offer for all relevant securities and purchase all securities tendered.

The TSE rules require timely disclosure. Since July 2025, an independent special committee's opinion on fairness to general shareholders for management buy-outs has been required and for specified take-private transactions involving controlling shareholders or other affiliated companies. The opinion must be obtained and disclosed. The Ministry of Economy, Trade and Industry (METI)'s Fair M&A Guidelines (2019) and Guidelines for Corporate Takeovers (2023) are not binding laws but are important benchmarks for transaction conduct.

Structuring Considerations

Ordinary solvent acquisitions in Japan proceed through corporate approvals rather than a court-sanctioned scheme of arrangement. Courts handle disputes and ancillary procedures, such as approving sales of fractional shares. Distressed businesses have separate court-supervised restructuring procedures.

Statutory reorganisations generally require special resolutions. Simplified procedures for small transactions and short-form procedures for certain 90%-owned relationships can dispense with a vote at the relevant company. A typical simplified transaction involves consideration not exceeding 20% of the acquirer's net assets. Approval exemptions and dissenters' appraisal rights must be considered separately. Mergers and company splits normally require a creditor objection period of at least one month. Foreign-incorporated companies cannot be direct parties to mergers or share exchanges under the Japanese Companies Act. Overseas buyers instead use a Japanese subsidiary. The foreign parent's shares may be used as consideration in a triangular merger or share exchange.

The two-thirds threshold is central to public M&A. A holder of at least 90% of the voting rights can generally acquire the remaining shares through the special controlling shareholder cash-out procedure, with the target board's approval but without a shareholder vote. Below 90%, a share consolidation approved by special resolution is commonly used: minority shareholdings are reduced to fractional shares, which are then converted into cash. Bidders seeking full ownership therefore often target two thirds of all voting rights, which is sufficient to secure the approval of the required special resolution, and plan the tender offer and squeeze-out together.

Common Deal Structures

For unlisted targets, a negotiated share purchase is a common structure. The target remains the owner of its assets and a party to its contracts, but change-of-control provisions still require review. Carve-outs use a company split or business transfer, often followed by a sale of the subsidiary holding the business. A business transfer generally needs individual contract-transfer consents, including employees' consent to transfer their employment contracts; a company split uses statutory succession with creditor and employee protections, while licences must be reviewed separately.

For listed targets, a cash tender offer followed by a squeeze-out is the standard route to full ownership. Parent companies may use tender offers or share exchanges, and a joint share transfer to a new holding company is an option for combinations of equals. In conflicted take-privates, the central safeguards are an independent special committee, effective independent advice, genuine negotiation and adequate disclosure.

Recent Legislative and Regulatory Changes

METI also published Key Points and a Q&A supplementing its takeover guidelines in July 2026.

Companies Act reform remains under consideration. The 2026 interim proposal includes extending share deliveries to acquisitions of foreign companies and an option to permit the special controlling shareholder cash-out at two thirds of voting rights, rather than 90%, following a tender offer meeting fairness condition.

Recent Court Decisions

In *Jupiter Telecom* (Supreme Court, 1 July 2016), the acquisition price was challenged in a two-step take-private comprising a tender offer followed by compulsory acquisition of an entire class of shares under an all-acquisition clause. Before the offer, the two acquiring companies together held, directly or indirectly, at least 70% of the target's voting rights, which created structural conflicts of interest. The Supreme Court

held that, even in such a transaction, the tender offer price should be respected where generally accepted fair procedures had been followed, including independent review and disclosure that the subsequent acquisition would be at the same price, absent special circumstances such as an unexpected change in the underlying circumstances.

By contrast, in the *FamilyMart* case (Tokyo District Court, 23 March 2023; Tokyo High Court, 31 October 2024), the procedure was not considered to be fair and the courts set a fair price of JPY2,600 per share, which was higher than the JPY2,300 tender offer price. According to the petitioning investor, Oasis, in *SHiDAX* (Tokyo District Court, 23 July 2026), the court likewise fixed JPY950 against an offer price of JPY800.

Japanese courts assess takeover defences by asking whether the measure was approved by shareholders in a properly constituted vote and whether it is necessary and proportionate to the threat. In *Tokyo Kikai Seisakusho* (2021), the Supreme Court upheld a defensive allotment of share options without consideration that had been approved by a "majority-of-minority" vote excluding an acquirer which had rapidly built a 40% stake through market purchases. In *Mitsuboshi* (2022), by contrast, a similar allotment was enjoined despite shareholder approval. Majority-of-minority votes excluding the acquirer have since become standard practice, but these decisions make clear that shareholder approval alone does not establish the validity of a defence. How courts will treat measures directed at investors that do not seek control remains an open question.

5. Capital Markets

5.1 Securities Regulation and Public Offerings

Regulatory Framework and Offering Process

The Financial Instruments and Exchange Act (FIEA), its implementing regulations and the Companies Act govern securities offerings in Japan. The Financial Services Agency (FSA) and Local Finance Bureaus administer disclosure and supervise intermediaries and the Securities and Exchange Surveillance Commission (SESC) investigates market misconduct.

An IPO or follow-on public offering generally requires the issuer to file a securities registration statement through EDINET before solicitation begins and deliver a prospectus before or when investors acquire securities, subject to statutory exceptions. The statement describes:

- the issuer;
- audited financial information;
- risks;
- use of proceeds; and
- offering terms.

Securities cannot be acquired under the offering before registration becomes effective. The statutory waiting period is normally 15 days after filing, although shortening and extensions apply; amendments, pricing and underwriting affect the actual timetable.

An IPO separately requires exchange approval. TSE's Prime, Standard and Growth markets have different requirements concerning shareholder distribution, tradeable shares, financial condition and business prospects. Governance, internal management and reliable disclosure are also examined. Formal listing examination generally takes approximately two to three months, depending on the market, following substantial preparatory work and underwriting due diligence. Follow-on offerings by established issuers can proceed more quickly, but corporate approvals, disclosure and exchange procedures remain necessary.

Exempt Offerings and Transfer Restrictions

For ordinary shares and corporate bonds, solicitation of 50 or more persons generally constitutes a public offering; statutory aggregation rules prevent artificial splitting. Different rules apply to certain fund interests. The main private-placement routes are:

- small-number placements, generally involving fewer than 50 offerees, subject to aggregation and the applicable securities-specific conditions;
- placements exclusively to qualified institutional investors, with restrictions designed to keep the securities within that investor category; and
- placements to specified investors under the professional-investor regime, requiring applicable

investor eligibility, information provision and transfer restrictions.

Depending on the route and securities, issuers must notify investors that registration has not occurred and explain restrictions; professional placements also require specified securities information and subsequent issuer information where applicable.

Japan has no universal holding period for exempt securities. Restrictions depend on the exemption and may require transfers only to eligible investors or transfers of an entire holding. Issuers and distributors must assess subsequent resales separately. Non-compliance can trigger filing violations, administrative or criminal sanctions and civil liability.

5.2 Continuous Disclosure

Statutory and Exchange Disclosure

Domestic listed companies generally file annual securities reports within three months of year-end and half-yearly reports within 45 days of the half-year end, with special rules for certain financial institutions. Annual financial statements require an audit and half-yearly financial statements require an interim review. Reports include:

- financial and business information;
- risks;
- governance; and
- applicable sustainability disclosures.

Since April 2024, the FIEA quarterly-report system has been replaced by half-yearly reporting, but exchange quarterly earnings disclosures continue. TSE requires financial results promptly once finalised and timely disclosure of prescribed decisions, events and significant changes in forecasts through TDnet. Material financing, acquisitions, losses and changes affecting subsidiaries may require disclosure.

An extraordinary report must be filed through EDINET without delay when a prescribed event occurs; TDnet disclosure does not replace this obligation. The FIEA fair-disclosure rule generally requires simultaneous public disclosure when material information is intentionally provided to specified market professionals, and prompt disclosure following an inadvertent communication, subject to exceptions.

5.3 Insider Trading

Prohibitions and Enforcement

The FIEA prohibits specified corporate insiders and recipients of information from trading relevant listed securities while aware of undisclosed material facts learned through the prescribed relationship. Officers, employees, certain shareholders, advisers and contractual counterparties may be covered. Separate rules address undisclosed tender-offer information. Amendments to the FIEA enacted in July 2026, expected to take effect by July 2027, extend the tender-offer insider rules to advisers and other persons contracting or negotiating with the target company and increase the administrative monetary penalties for such violations.

Passing inside information or recommending trades to enable another person to profit or avoid loss is also regulated. Exceptions, including qualifying pre-existing trading plans, must satisfy their specific conditions. The FIEA also prohibits fraudulent trading, spreading rumours and market manipulation, including wash trades and transactions designed to create misleading trading activity. The SESC can investigate, inspect and seek information, recommend administrative monetary penalties, and investigate suspected criminal offences, including through judicially authorised searches. The FSA issues administrative orders, while prosecutors pursue criminal cases. Consequences include monetary penalties, criminal fines or imprisonment and confiscation or recovery of illicit gains; corporate liability may also arise.

5.4 Shareholder Disclosure

Large Shareholding Reports

A holder whose statutory holding ratio in listed share certificates and equivalent securities exceeds 5% must generally file a large shareholding report through EDINET within five business days. The regime covers domestic and foreign holders, including individuals and institutions, and relevant listed equity-related securities, including investment securities. Holdings of joint holders are aggregated; contractual rights and prescribed derivative positions can also count.

A change report is generally required within five business days when the holding ratio changes by at least one percentage point or another reportable material matter changes. Reports disclose matters such as:

- investment purpose;
- financing;
- recent transactions; and
- material agreements.

Qualifying financial institutions may use special reporting arrangements, subject to holding limits and restrictions on important proposals to management.

Amendments effective from 1 May 2026 clarify what constitutes an important proposal and the scope of joint holders, and bring certain cash-settled equity derivatives into the holding calculation where they are held to influence the issuer's management or the exercise of voting rights. A limited exception facilitates qualifying institutional investors' joint exercise of individual shareholder rights; it is not a general exemption for co-ordinated activism.

Failures or false statements can lead to correction orders, administrative monetary penalties and criminal sanctions. Amendments enacted in July 2026, expected to take effect by July 2027, raise the administrative monetary penalty for non-filing or false filing to 70 times the current level, which is based on the issuer's market capitalisation.

5.5 Internal Controls and Whistle-Blower Regimes

Internal Control Systems

The Companies Act requires specified companies, including large companies with boards of directors, to determine systems ensuring lawful and appropriate operations. Directors must oversee implementation; merely adopting a policy is insufficient. Listed companies also assess financial-reporting controls and file annual internal control reports under the FIEA, normally with an external auditor's attestation.

Whistle-Blower Regimes

Under the Whistleblower Protection Act, businesses regularly employing more than 300 workers must establish internal reporting arrangements and designate personnel handling protected reports. Businesses with 300 or fewer workers have an endeavour obligation. Designated personnel owe confidentiality duties concerning information identifying whistle-blowers. Qualifying workers, certain former workers and officers are protected against dismissal or other disadvantageous treatment, subject to the statutory conditions for internal and external reporting.

Amendments taking effect on 1 December 2026 expand protection to qualifying freelancers, strengthen enforcement and introduce criminal penalties for specified retaliatory dismissals and disciplinary action. Dismissal or disciplinary action taken within one year after a protected report will also be presumed to have been made because of the report, placing the burden on the employer to establish another reason. They also prohibit unjustified obstruction of reporting and attempts to identify whistle-blowers.

6. Secured Transactions

6.1 Transaction Financing and Security Interests

In secured transactions in Japan, in addition to mortgages and pledges under the Civil Code, security by assignment, provisional registration security, and security interests under various special statutes are used. In recent years, new legislation has increasingly codified areas that had previously depended on judicial precedent and practice. The Act on the Promotion of Business-Based Lending, etc, enacted in 2024, introduced the enterprise value security interest, under which the company's assets as a whole are taken as security. In 2025, legislation concerning security assignment agreements and retention-of-title agreements was enacted.

Mortgages and pledges are standard forms of security under the Civil Code. Mortgages generally cover real property, while pledges may cover movables, real property, receivables and other assets; in the case of a pledge over movables, continued possession by the pledgee is required. For security involving real property, perfection against third parties is achieved by registering the mortgage. For a pledge over movables, delivery under the Civil Code is the basic requirement.

Where a corporation transfers movables, registration of the transfer of movables may also be used.

Security by assignment is a form of security under which ownership of, or another right in, the secured asset is transferred to the creditor for security purposes. It is characterised by allowing the grantor to retain actual possession, permitting private enforcement without a court-administered auction, and being available over movables, receivables, shares, intellectual property rights and other assets. As a general rule, notice to the debtor by an instrument bearing a certified date, or the debtor's consent, is required.

As regards priority, as a general rule, priority between security interests over the same property is determined by the order in which the relevant requirements for perfection against third parties – such as registration, recording, delivery, notice or consent – are satisfied. Where an enterprise value security interest competes with a pledge, mortgage or other security interest, priority is also generally determined by the order in which the requirements for perfection of the respective security interests are satisfied or the enterprise value security interest is registered.

Where multiple lending financial institutions or other parties form a syndicate of lenders, an intercreditor agreement is used to establish the decision-making process for exercising rights, the method of enforcing security interests and other fundamental rights and obligations.

7. Commercial Contracts

7.1 Contract Formation and Enforceability

Formation and Interpretation

Parties may freely determine the content of a contract within the limits of the law (Civil Code, Article 521; "Freedom of Contract"). A contract is formed simply by matching offer and acceptance; "consideration" is not required. As an exception, the written form is required for, among others, guarantees (Article 446 (2)), statements of working conditions (Labour Standards Act, Article 15 (1)) and statements of transaction terms to freelancers (Freelance Act, Article 3).

No statute governs interpretation, which starts from the wording and considers the following:

- the contract's structure and purpose;
- the course of dealings;
- the parties' reasonable intentions; and
- trade practice.

Limits on Freedom of Contract

In B2B contracts, limitation of liability clauses are largely accepted, but clauses excluding liability even for wilful misconduct or gross negligence may be void as contrary to public policy. The principles of good faith and the prohibition of abuse of rights may also constrain performance, termination and the exercise of rights.

Clauses in standard terms that unilaterally harm the other party's interests are restricted (Civil Code, Article 548-2 (2)), exclusion clauses in consumer contracts are restricted much further (Consumer Contract Act, Articles 8 to 10), and continuous transactions are subject to the Antimonopoly Act and the Proper Transactions Act (formerly the Subcontract Act).

Invalidity and Rescission

Grounds for invalidity or rescission include:

- incapacity;
- sham declarations;
- mistake;
- fraud;
- duress;
- violation of public policy or mandatory provisions; and
- unauthorised agency.

For companies, the representative director's authority (Companies Act, Article 349) and apparent representative directors (Article 354) may be at issue, so it is important to confirm whether the necessary authority and procedures for a transaction have been met.

7.2 Termination and Remedies

Remedies for Breach of Contract

The main remedies for breach of contract are claims for:

- performance (specific performance);
- damages (Civil Code, Article 415);
- termination (Articles 541 and 542); and
- in sales contracts, cure and price reduction (Articles 562 and 563).

Under Japanese law, performance is the primary remedy, a major difference from common law systems, where it is an exceptional remedy. In practice, however, disputes are more often resolved through damages.

Damages are limited to ordinary losses and foreseeable special losses (Article 416), and punitive damages are not recognised (Supreme Court, 11 July 1997). An agreed penalty is presumed to be liquidated damages (Article 420 (3)) and cannot, in principle, be reduced, although consumer contracts are subject to restrictions (Consumer Contract Act, Article 9).

Termination

Termination is divided into termination after notice (Civil Code, Article 541) and termination without notice (Article 542), and, since the 2020 reform, fault on the part of the obligor is no longer a requirement. Termination gives rise to obligations to restore the original position and does not preclude a claim for damages (Article 545 (1) and (4)).

Wrongful termination is not only invalid but may also make the terminating party liable for performance or damages. In long-term continuous contracts in particular, courts tend to require unavoidable reasons or reasonable notice or compensation, regardless of the termination clause; this can be an issue, for example, when a foreign company terminates a Japanese distribution agreement.

Force Majeure

No Japanese statute defines "force majeure" as used in common law contracts, and the doctrine of changed circumstances, based on good faith, has extremely strict requirements and has almost never been applied (Supreme Court, 1 July 1997).

It is therefore important to include contractual provisions addressing force majeure, price surges and market or economic fluctuations.

7.3 Intellectual Property in Commercial Transactions

Assignment and Licence

Requirements for assigning and licensing IP differ by the type of right, which should be reflected in the contract.

For patents and trade marks, transfers and exclusive licences must be registered with the Japan Patent Office (Patent Act, Article 98 (1)(i); Trademark Act, Article 35).

An assignment of copyright covers the rights of adaptation and in derivative works (Copyright Act, Articles 27 and 28) only if the contract says so expressly (Article 61 (2)). Moral rights cannot be assigned, so contracts provide that they will not be exercised.

Trade secrets cannot be registered and must satisfy secrecy management, usefulness and non-public nature (Unfair Competition Prevention Act, Article 2 (6)), so they are usually protected through confidentiality clauses.

Ownership

The right to obtain a patent for an employee invention may be vested in the employer by employment rules or the like, but the inventor must receive "reasonable benefits" (Patent Act, Article 35).

Authorship of works made for hire vests in the employer itself (Copyright Act, Article 15), but this does not extend to independent contractors, so contracts with them must include a copyright assignment and a covenant not to exercise moral rights.

In joint development, each co-owner may freely work a jointly owned patent, but assigning a share or granting a licence requires the other co-owners' consent (Patent Act, Article 73).

The Agency for Cultural Affairs considers that AI cannot be an author, and the courts have held that AI cannot be an inventor (IP High Court, 30 January 2025; appeal not accepted by the Supreme Court, 4 March 2026).

Remedies for Infringement

The main remedies are injunctions and statutory presumptions of the amount of damages. Certain IP disputes fall within the exclusive jurisdiction of the Tokyo and Osaka District Courts and the IP High Court, thereby ensuring expert handling.

7.4 Consumer Protection

Japanese consumer protection law focuses on the Consumer Contract Act, the Act on Specified Commercial Transactions and the Act against Unjustifiable Premiums and Misleading Representations, supplemented by the Instalment Sales Act, the Product Liability Act, the Consumer Safety Act and others, and includes rules that affect the validity of contracts.

The Consumer Contract Act contains rules affecting the validity of consumer contracts, such as the right to rescind declarations induced by improper solicitation and the invalidity of clauses fully exempting a business from liability for damages. Qualified consumer organisations may also seek injunctions against violations (Article 12).

The Act on Specified Commercial Transactions regulates representations, delivery of documents and solicitation methods in door-to-door sales, mail-order sales and other transactions. There is a cooling-off period of eight days for door-to-door sales and 20 days for multi-level marketing (Articles 9 and 40). Mail-order sales carry no cooling-off right, but returns are permitted within eight days if certain requirements are met (Article 15-3).

The Act against Unjustifiable Premiums and Misleading Representations prohibits, among other things, representations that quality is significantly better than it actually is ("misleading representations as to quality") and representations that price or terms are significantly more favourable than they actually are ("misleading representations as to terms"); a 2023 public notice of the Consumer Affairs Agency also brought stealth marketing within its scope. Violations may lead to cease-and-desist orders (Article 7) and administrative surcharges (Article 8), and qualified consumer organisations may also seek injunctions (Article 34).

8. Foreign Investment

8.1 Competition and Merger Control

Notification and Review

The Antimonopoly Act (AMA), administered by the Japan Fair Trade Commission (JFTC), applies to domestic and foreign-to-foreign transactions affecting competition in Japan. For share acquisitions, prior notification is generally required where:

- the acquirer's corporate group has Japanese domestic sales exceeding JPY20 billion;
- the target and its subsidiaries have Japanese domestic sales exceeding JPY5 billion; and
- the acquisition takes the group's voting rights above 20% or 50%.

Mergers and joint share transfers generally use JPY20 billion and JPY5 billion group-sales thresholds. Business acquisitions generally require an acquirer group exceeding JPY20 billion and relevant seller or transferred-business domestic sales exceeding JPY3 billion. Company splits have structure-specific thresholds. Intra-group exemptions apply, and the JFTC can review transactions below filing thresholds. There is no filing fee. Closing is prohibited for 30 days after acceptance of a complete notification unless the period is shortened. Where the JFTC requests additional reports in a second-phase review, the statutory deadline for its prescribed response is the later of 120 days after notification and 90 days after receipt of all requested reports.

The substantive test is whether the combination may substantially restrain competition in a particular field of trade. The JFTC examines unilateral and co-ordinated effects, entry, imports, customer bargaining power and efficiencies. Remedies may include divestitures or behavioural commitments.

Non-Compliance and Restrictive Conduct

Failure to notify, false notification and premature closing can attract criminal fines of up to JPY2 million. Substantively unlawful combinations may require divestiture or other corrective measures. The AMA separately prohibits private monopolisation, cartels and unfair trade practices. Enforcement includes inspections, cease-and-desist orders, surcharges for

applicable infringements and criminal prosecution of serious cases; damages claims are also possible.

8.2 Foreign Investment Restrictions and Sector-Specific Rules

FEFTA Screening

The Foreign Exchange and Foreign Trade Act (FEFTA) provides Japan's principal national-security investment review regime. Foreign investors include:

- non-resident individuals;
- foreign entities; and
- certain Japanese entities under foreign ownership or control.

The Ministry of Finance and the ministry responsible for the relevant business review notifications submitted through the Bank of Japan.

Subject to exemptions, acquisitions resulting in ownership of at least 1% of the shares or voting rights of a listed Japanese company conducting a designated business require prior notification. Acquisitions of unlisted shares from domestic holders can be covered regardless of percentage; acquisitions from another foreign investor are separately regulated as specified acquisitions. Relevant businesses conducted by subsidiaries must also be checked. Certain loans, business acquisitions, branch establishments and consents to specified management proposals can trigger separate filings.

Designated sectors include:

- defence;
- nuclear activities;
- certain technologies;
- telecommunications; and
- critical infrastructure.

Exemptions depend on the investor, business and conduct after investment. Typical conditions restrict board participation, proposals to dispose of designated businesses and access to non-public technical information. Core sectors face stricter conditions, including the general investor exemption's below-10% limit for listed investments. Foreign financial institutions have a separate framework; foreign governments, state-owned entities and prescribed high-risk investors face exclusions or special treatment.

There is no filing fee. A notified investment ordinarily carries a 30-day waiting period, which may be shortened or extended; detailed review can extend to five months. Authorities may seek mitigation, recommend modification or discontinuance and ultimately issue orders. Post-investment reporting and compliance monitoring remain relevant even where a prior-notification exemption applies. Breaches can lead to criminal sanctions and divestiture or other corrective orders.

Sector Rules and Investment Support

Separate ownership and licensing rules apply. Foreign voting rights in Japanese airlines must generally remain below one third; broadcasting limits depend on the licence category. NTT has a statutory foreign voting-rights cap, but there is no equivalent blanket cap across all telecommunications businesses. Banking and insurance acquisitions can require major-shareholder approval, irrespective of nationality. Breaches may affect shareholder registration or voting and jeopardise operating licences.

Investors may qualify for R&D tax credits, national or local investment subsidies and special-zone measures. Eligibility depends on the project and programme; foreign status alone does not confer a general tax holiday.

Recent Reforms

The June 2026 FEFTA amendment expands oversight of indirect acquisitions and domestic investments influenced by high-risk foreign persons, introduces measures addressing risks in non-designated sectors and formalises mitigation arrangements. Its principal reforms take effect on 4 January 2027, with full application of the new implementing rules from 3 February 2027; provisions establishing the inter-agency review framework took effect in June 2026.

9. Regulatory Compliance

9.1 Privacy and Data Protection

The core of Japan's general privacy and data protection framework is the obligations imposed on personal information handling business operators under the Act on the Protection of Personal Information. In addition, sector-specific requirements are imposed through individual guidelines and other instruments in areas including:

- finance;
- employment placement and the provision of recruitment information;
- postal services; and
- health insurance societies.

In relation to acquisition, a personal information handling business operator must not acquire personal information by deception or other wrongful means. Except where an exception applies, such as where acquisition is based on laws and regulations, the individual's prior consent is required to acquire special care-required personal information. In relation to use, personal information must not be handled, without the individual's consent, beyond the extent necessary to achieve the purpose of use identified in advance.

Provision of personal data to a third party generally requires the individual's prior consent, except where it is based on laws and regulations or another exception applies. Outsourcing, business succession and certain forms of joint use may not constitute provision to a third party. An individual may request disclosure of retained personal data and, where there has been unlawful handling or similar conduct, may request cessation of use or other handling, or cessation of provision to third parties.

Where there is a leakage, loss, damage or other security-related incident that is highly likely to harm the rights and interests of individuals, the personal information handling business operator must, in principle, report the incident to the Personal Information Protection Commission and notify the affected individuals. In addition, the prescribed matters must be reported within 30 days of the date on which the incident became known, or within 60 days in the case of certain incidents involving unauthorised access or similar conduct.

Provision of personal data to a third party located in a foreign country generally requires the individual's prior consent, except where a statutory exception applies, unless the third party is located in a foreign country whose system is recognised as providing a level of protection equivalent to that of Japan (currently only the EU and the United Kingdom), or the third party has established a system conforming to the prescribed standards for continuously implementing equivalent protective measures. When obtaining consent, the business operator must provide the individual with information concerning the name of the foreign country, the personal information protection regime in that country, and the protective measures implemented by the recipient.

There is no general data localisation requirement mandating that data be stored in Japan.

9.2 Anti-Money Laundering, Sanctions and Corruption

AML/CFT

The Act on Prevention of Transfer of Criminal Proceeds imposes transaction verification, record-keeping and other preventative duties on specified businesses. These include:

- financial institutions;
- relevant payment and crypto-asset businesses;
- real-estate brokers;
- dealers in precious metals and stones; and
- designated professional service providers.

Covered transactions require verification of prescribed customer information, including beneficial ownership and transaction purpose where applicable, with enhanced verification for higher-risk cases. Verification and transaction records are generally retained for seven years under their respective statutory rules. Businesses subject to suspicious-transaction reporting must report to the competent authority without tipping off the customer. Risk assessment, ongoing monitoring, training and management oversight are central to compliance. JAFIC receives and analyses financial intelligence; competent supervisors can

require reports, inspect and order corrective action. Money laundering and terrorist financing also attract criminal liability under separate legislation.

Sanctions and Export Controls

FEFTA implements payment and capital-transaction restrictions, asset-freezing measures and trade controls. Businesses must check designated persons, relevant ownership or control, destinations, goods, technology, end-users and end-use before proceeding. Required permissions are not replaced by a bank's screening. METI administers security export controls, covering listed items and catch-all controls; electronic technology transfers and certain domestic disclosures to persons under foreign influence can also require authorisation.

Violations can lead to transaction restrictions, administrative orders, criminal fines or imprisonment, with corporate penalties and transaction-value-based increases where prescribed.

Bribery and Corruption

The Penal Code criminalises bribery of Japanese public officials. The Unfair Competition Prevention Act prohibits offering, promising or giving benefits to foreign public officials to obtain an improper business advantage in international commercial transactions. There is no general facilitation-payment exemption. Foreign bribery can attract up to 10 years' imprisonment and/or a JPY30 million individual fine, and a corporate fine up to JPY1 billion; extraterritorial provisions can apply.

Police and prosecutors investigate bribery; METI publishes prevention guidance. Businesses should do the following:

- conduct agent and acquisition due diligence;
- control gifts and hospitality;
- verify payments; and
- maintain reporting channels.

Japan has no general commercial-bribery offence. However, the Companies Act criminalises directors, officers and certain other company personnel who solicit or accept benefits in return for an improper request relating to their duties, as well as those who offer such benefits. Private-sector misconduct may also constitute breach of trust or other offences.

9.3 Environmental, Health and Safety, and Industry-Specific Regulation

Environmental Obligations and Climate Risk

The Environmental Impact Assessment Act requires assessment procedures for prescribed projects, while local ordinances may cover additional projects. Air and water pollution laws, waste-management requirements, chemical controls and local standards affect operations and transaction diligence.

Under the Soil Contamination Countermeasures Act, closure of specified facilities, certain land alterations or identified health risks can trigger investigation and regulatory measures. Landowners or other responsible landholders may face duties even if they did not cause contamination. Buyers should investigate historical use, permits and remediation exposure; contractual indemnities allocate costs between parties but do not bind regulators.

Japan combines the existing tax for climate-change mitigation with emissions trading. From fiscal 2026, the statutory GX emissions-trading system covers businesses whose average annual direct CO_2 emissions over the preceding three fiscal years reach 100,000 tonnes. Covered businesses must meet reporting, verification and allowance obligations. A fossil-fuel surcharge is scheduled from fiscal 2028; local schemes, including Tokyo's and Saitama's, also require attention.

Climate disputes raise questions of standing, causation and the legal basis for injunctions against emissions, including challenges to power projects. Environmental permits do not eliminate civil liability.

Workplace Safety and Regulated Businesses

The Industrial Safety and Health Act and related regulations require safety-management arrangements, prescribed training, health examinations and measures addressing workplace hazards. Employers also owe a contractual duty of care. Japan has a national framework administered through the Ministry of Health, Labour and Welfare and labour authorities, rather than separate federal and provincial regimes.

Local environmental and public-health requirements may apply additionally. Since June 2025, prescribed heat-exposure work requires reporting arrangements and response procedures for heat illness.

The following have separate licensing or registration regimes:

- financial services;
- pharmaceuticals and medical devices;
- electricity;
- telecommunications;
- construction; and
- waste services.

Cannabis-related cultivation and products are tightly regulated; lawful pharmaceutical use does not establish a general recreational market. Acquisitions require scrutiny of permit succession, change-of-control approvals, qualified personnel and product authorisations. Asset transfers may require fresh permissions even where a share purchase would preserve the operating entity's licences.

9.4 Artificial Intelligence

Statutory Framework and Governance

The Act on the Promotion of Research and Development and Utilisation of Artificial Intelligence-Related Technology became fully effective in September 2025. It establishes a national policy framework and requires businesses to endeavour to promote AI research and use and to co-operate with government measures. It does not impose a general licensing system or an EU-style schedule of prohibited and high-risk AI applications. The government may investigate harmful uses and provide guidance and advice.

The framework is supplemented by the AI Basic Plan, updated in July 2026, the December 2025 guidelines on appropriate AI research and utilisation, and the MIC/METI AI Guidelines for Business, version 1.2 of March 2026. These address safety, fairness, privacy, security, transparency, accountability and human involvement. Their governance recommendations should be distinguished from enforceable obligations under existing legislation.

AI deployment remains subject to personal-information, copyright, consumer, competition, employment and sector-specific laws, as applicable. Using third-party models does not transfer all legal responsibility to the provider. Businesses should allocate accountable owners, evaluate bias and foreseeable misuse, document testing and data provenance, provide explanations appropriate to the use, and maintain human review and incident-response processes.

9.5 Other Regulatory Compliance Requirements

Supply Chains and Economic Security

The amended legislation governing payments to small and medium-sized entrusted businesses, commonly called the Toriteki Act, applied from 1 January 2026. Depending on transaction type and relative capital or employee size, it requires disclosure of order terms, record-keeping and timely payment, generally within 60 days of receipt. It prohibits specified abusive practices, including unjustified reductions, promissory-note payment and unilateral price determination without the required consultation. The Freelance Act separately governs qualifying engagements, including disclosure, payment and certain workplace protections.

The Economic Security Promotion Act requires designated essential-infrastructure providers to submit plans before introducing specified critical equipment or entrusting its maintenance or management, subject to review and waiting requirements. This is distinct from FEFTA investment screening and may affect procurement and integration after an acquisition.

10. Employment and Labour

10.1 Employment Standards and Workplace Regulation

Basic Frameworks

Japanese employment law focuses on the Labour Standards Act (LSA) and the Labour Contract Act (LCA), alongside many other statutes such as the Minimum Wage Act.

The LSA sets mandatory minimum standards; contractual terms falling below them are void. Working

hours are capped at eight hours a day and 40 hours a week (Article 32); overtime requires a filed labour-management agreement (a "36 agreement") (Article 36 (1)). Even then, overtime is capped, on pain of criminal penalties, at 45 hours a month and 360 hours a year or, under special clauses, 720 hours a year, under 100 hours in any month and 80 hours on average over multiple months (Article 36 (4)–(6)). Premiums of 25% apply to overtime (50% beyond 60 hours a month) and to late-night work (Article 37).

Workplaces with ten or more regular workers must file work rules (Article 89); adverse changes to them require employee consent or reasonableness (LCA, Articles 9 and 10).

Dismissal Regulation

Dismissal requires 30 days' notice or payment in lieu (LSA, Article 20 (1)). The real barrier is the abusive dismissal doctrine: a dismissal lacking objectively reasonable grounds and social acceptability is void (LCA, Article 16). For redundancies, courts weigh the need to reduce headcount, efforts to avoid dismissal, reasonable selection and appropriate procedure (Tokyo High Court, 29 October 1979). Dismissal during a fixed term requires "unavoidable reasons" (LCA, Article 17 (1)). In practice, disputes usually end in agreed termination with a settlement of three to 12 months' wages.

A void dismissal means the employment continues, with back pay. There is no "constructive dismissal" doctrine, but forced resignation or harassment may render a resignation void or voidable or give rise to damages.

10.2 Executive Compensation and Restrictive Covenants

Executive Compensation

Unless set by the articles, directors' remuneration is determined by shareholders' resolution (Companies Act, Article 361 (1)). In practice, shareholders approve only an aggregate cap and leave individual allocation to the board. However, listed companies and certain others must adopt an individual remuneration policy (Article 361 (7)), and officers paid JPY100 million or more are named in annual securities reports.

Since the 2019 reform, listed companies may issue shares as remuneration without payment (Article 202-2), whereas unlisted companies must still use a contribution in kind of monetary remuneration claims, which the March 2026 reform proposals are expected to address.

Tax considerations have a significant impact on compensation design. Directors' remuneration is tax-deductible only if certain requirements are met (Corporation Tax Act, Article 34 (1)). Stock options are generally taxed as employment income on exercise, but qualifying options defer taxation until sale, at a flat rate of 20.315% (Act on Special Measures concerning Taxation, Article 29-2). The annual exercise price cap of JPY12 million was effectively raised in 2024 to JPY24 million for companies under five years old and JPY36 million for companies five to twenty years old that are unlisted or have been listed for less than five years.

No statute regulates change-of-control provisions as such; they are constrained by directors' duty of care and the remuneration resolution.

Restrictive Covenants

Given the freedom to choose one's occupation (Constitution, Article 22 (1)), courts assess non-compete clauses strictly, weighing the company's interests, the individual's position, the restricted period, area and activities, and any compensation (Nara District Court, 23 October 1970). Reported cases tend to uphold restrictions of around six months to one year for employees and up to around two years for directors. Restrictions without reasonable limits on area or activities, or without compensation, are more likely to be held invalid.

Non-solicitation clauses are upheld more readily, although merely encouraging a move is generally lawful. Confidentiality clauses are valid within a reasonable scope and are usually combined with trade secret protection (Unfair Competition Prevention Act, Article 2 (1)(vii)).

11. Real Property and Commercial Leasing

11.1 Requirements for Land Ownership

Forms of ownership include:

- direct ownership by an individual;
- ownership by a domestic corporation; and
- ownership by a foreign corporation.

However, the following should be noted:

- acquisition by a non-resident may be subject to reporting under the Foreign Exchange and Foreign Trade Act;
- land transactions above certain thresholds may require notification under the National Land Use Planning Act; and
- certain land and other property within Special Monitoring Areas may require notification before entering into a contract.

11.2 Commercial Real Estate Transactions

Under the Real Property Registration Act, real property comprises land or buildings, and registration is made in relation to the description of real property and the preservation, creation, transfer and other changes in rights such as ownership, superficies, easements, mortgages and leasehold rights. In Japan, land and buildings are treated as separate real properties.

When acquiring or disposing of real property, it is advisable to verify the registered owner and the relevant rights, security interests and attachments, restrictions under the City Planning Act, Building Standards Act, Agricultural Land Act and other legislation, as well as leases and matters relating to private roads.

Due diligence may be conducted before acquiring the relevant real property, and may include legal, economic and physical investigations. The use of title insurance is not necessarily common in Japan. In relation to environmental liability, the buyer and seller may agree on a transaction-by-transaction basis as to which party is to bear responsibility and to what extent.

In commercial real estate financing in Japan, it is common to create a mortgage or a revolving mortgage over the relevant real property. Where multiple mortgages are created over the same real property, their priority is, in principle, determined by the order of registration.

In Japan, leases of buildings are governed by the Act on Land and Building Leases in addition to the Civil Code. In particular, the distinction between ordinary building leases and fixed-term building leases is important. Under an ordinary building lease, a landlord is, in principle, required to have "justifiable grounds" in order to refuse renewal upon expiration of the lease term, and tenants are afforded relatively strong protection. By contrast, under a fixed-term building lease, the lease may terminate upon expiration of the agreed term without renewal, provided that the formalities, prior explanation, and other requirements prescribed by the Act on Land and Building Leases are satisfied.

As a general rule, the assignment of a leasehold interest or sublease requires the landlord's consent, and an unauthorised assignment or sublease may constitute grounds for termination of the lease. In this regard, under Japanese judicial precedent, even where there has been a breach of contract, termination will not be permitted unless the breach is considered to have destroyed the relationship of trust between the parties. Accordingly, it is important for the lease agreement to clearly define in advance the extent to which use by group companies, changes in the occupying entity as a result of M&A transactions or corporate reorganisations, subleasing and similar arrangements are permitted.

Recent developments in real estate regulation include a requirement, effective from April 2026, that where there is a change in the name or address of a real property owner, an application for registration of the change must, in principle, be made within a prescribed period. In addition, the reporting regime under the Foreign Exchange and Foreign Trade Act in relation to acquisitions of real property in Japan by foreign investors has been expanded, with post-transaction reporting requirements now applying to acquisitions that were previously outside the scope of the regime, including acquisitions for residential or office use.

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